



Network Rail Infrastructure Limited
Regulatory Financial Statements

Year ended 31 March 2018

Directors' Review

In £m 2017/18 prices unless stated otherwise

Introduction

Network Rail is about to enter the final year of its five-year funding period and plans for the subsequent five years are well advanced.

To continue to deliver the infrastructure required for a vibrant and growing railway network, we will need to maintain the pace of delivery that we achieved in 2017-18 through 2018-19.

Together, the railway industry is investing to innovate and improve journeys right across the UK. Network Rail is spending £124m every single week on improvements for passengers through our Railway Upgrade Plan. As a result, by 2019 there will be an extra 170,000 seats into major cities across the country every day, with 6,400 extra train services and 5,500 new train carriages; a 30% increase in capacity. Journeys will be quicker, trains will run more frequently and there will be greater comfort on board. This growth provides challenge, not least in providing the growing infrastructure that Britain needs, in a manner that provides value to both the rail user and the taxpayer.

Our key projects for the year have included Crossrail, Thameslink, the Great North Rail Project, the Edinburgh Glasgow Improvement Programme, Great Western Electrification Programme, and the Waterloo and South West upgrade; we are now coming towards the end of these mega-projects with more frequent trains coming into service.

Our efficiencies have faced further challenges this year. The Office of Rail and Road (ORR) outlined, and Network Rail accepted, ambitious targets at the start of the control period, which have been built into the determination of charges. Efficiencies have been made, but are often offset against cost pressures; including changes to improve workforce safety, challenges in our supply chain such as the collapse of Carillion and decreasing opportunities to carry out works as the network becomes busier.

Network Rail needs to reduce costs and raise funds for the final year of our control period. One of the key recommendations of the Hendy Review in 2015 was to dispose of our non-core assets. The reason for this being to help bridge the funding gap for the Railway Upgrade Plan; assisted by additional government funding and generating additional efficiencies. Network Rail has continued to finalise this disposal of certain property assets over the year. The anticipated sale of our commercial estate is critical to achieving our plans in 2018-19 and we anticipate that this will take place in the second half of the year.

Devolution continues across the business. This has continued to drive a route-led and customer-driven mind-set, allowing us to work more closely with our key stakeholders and further drive improved performance. It has allowed us to be more commercial, and has opened us up to becoming more cost-efficient and competitive.

Finally, in February we have finalised our CP6 Strategic Business Plan; of which we believe supports a clear and realistic course for the business through the next 5-6 years.

Directors' Review continued

In £m 2017/18 prices unless stated otherwise

Summary income and expenditure comparison to the PR13 2017/18

	Actual	PR13	Difference
Income			
Grant Income	4,480	4,535	(55)
Fixed Income	519	503	16
Variable Income	1,138	1,267	(129)
Other Single Till Income	995	1,023	(28)
Opex memorandum account	4	0	4
Total Income	7,136	7,328	(192)
Operating expenditure			
Network operations	596	425	(171)
Support costs	396	453	57
Traction electricity, industry costs and rates	650	733	83
Network maintenance	1,380	1,124	(256)
Schedule 4	220	225	5
Schedule 8	219	5	(214)
Total operating expenditure	3,461	2,965	(496)
Capital expenditure			
Renewals	2,413	2,647	234
PR13 enhancement expenditure	3,153	3,664	511
Non PR13 enhancement expenditure	150	0	(150)
Total capital expenditure	5,716	6,311	595
Other expenditure			
Financing costs	2,347	2,260	(87)
Total expenditure	11,524	11,536	12

Income

Income in the year was £192m lower than that set out in the rail regulator's determination of charges with notable contributions from Traction electricity (which is offset by lower Operating costs) and differentials in inflation used to uplift ORR targets and those used for increasing contractual amounts due from government and train operators. Adjusting for these two items, income was £14m lower than the regulator planned, which includes the impact of structural decline in the freight market.

Directors' Review continued

In £m 2017/18 prices unless stated otherwise

Operating expenditure

Net operating costs for this year were higher than the regulator assumed. This continues the trend of earlier years of the control period when the ambitious efficiency plans in the determination have not been fully realised.

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 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities

Support costs are lower than the determination reflecting efficiencies made across the business and non-recurring savings in Group.

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 Business rates following government resetting these rates across the UK, as widely-reported in the media.

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

Compensations payable under the performance regime (schedule 4 and schedule 8) was higher than the regulatory determination target. This continues the trend of train performance falling below the targets set a number of years ago by the regulator. These targets tighten each year meaning Network Rail has to do better every year just to stand still. Asset performance was good, but performance in the year continued to be impacted by slower recovery times from incidents, a knock on effect of a more congested network. In addition discrete events such as the snow fall in February and March impacted the results.

Investment in the railway network

The Railway Upgrade Plan continues to transform the railway network. We have over 15,000 live projects, some the most largest and complex in the world. These mega-projects include Crossrail, Thameslink, Great Western Electrification and the Edinburgh Glasgow Improvement Programme. Network Rail is delivering nearly a quarter of the entire spend on infrastructure in the UK.

In order to deliver this level of investment Network Rail relies on a strong supply chain. Network Rail has a long-standing commitment to engage positively and collaboratively with its supply chain including a fair payment charter.

During the year the collapse of Carillion, one of our major suppliers, represented a major challenge. By working proactively with Carillion's administrators we were able to make sure that Carillion's subcontractors continued to be paid for works delivered on our projects. Furthermore by working with our supply chain we have been able to keep those projects that Carillion were delivering broadly on track.

In the year we continued to deliver historically high levels of investment at £6.5bn in the network

Directors' Review continued

In £m 2017/18 prices unless stated otherwise

Financing costs

Finance costs of £2,347m were £87m higher than the determination, mainly due to higher levels of average net debt than the regulator assumed. A large, but declining proportion, of Network Rail's gross debt (36 per cent at 31 March 2018) is index-linked, meaning that interest costs are directly linked to RPI inflation which was higher this year than the regulator expected. Just over half of Network Rail's debt is borrowed from government at rates linked to Bank of England base rates which have been lower than the market rates the regulator assumed when setting the determination targets which have generated some mitigating interest cost savings.

Financial framework

The railway network

The regulatory asset base (RAB) represents the ORR's calculation of the value of Network Rail's assets. Under the CP5 financial framework, 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, 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 breaching a licence condition, or where the ORR wishes to make a retrospective funding adjustment.

The current value of the RAB is 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.

Borrowing

Since becoming a public sector body in September 2014, Network Rail borrows directly from government and no longer issues debt on the 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 is in line to live within the funding envelope established at the time of agreeing the DfT loan facility.

During the year ended 31st March 2018, Network Rail borrowed a net £6.7bn 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 £44.8bn to £50.4bn

Network Rail plans to borrow significantly over the final year of the control period to finance the investment programme. We plan to draw down a further £6.4bn from the agreed DfT loan facility to finance this and to refinance maturing debt.

In addition to the DfT loan facility, Network Rail has plans to sell certain assets, increase efficiencies, 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.

Directors' Review continued

In £m 2017/18 prices unless stated otherwise

Summary

Network Rail has continued to deliver another huge part of the Railway Upgrade Plan; delivering the highest level of enhancements to the railway network it has ever recorded. These enhancements are designed to improve performance and increase network capacity to assist in meeting the increasing demand for rail travel. To maintain this momentum in the investment programme, Network Rail plans to continue in additional funding through the sale of non-core assets and continues to look for additional funding from third parties and internally by delivering further cost efficiencies.

In 2018/19 alongside the delivery of the Railway Upgrade Plan and the final year of CP5, stands the challenge, shared with our industry partners, of managing the implementation of the new capacity we have developed. By 2019 there will be an extra 170,000 seats into major cities across the country every day, with 6,400 extra train services and 5,500 new train carriages; a 30% increase in capacity. Whilst this presents rail industry-wide challenges to implement, once in place this will be transformational for our customers both now and into the future.

Our CP6 plans are now finalised; a bottom-up plan, highlighting how Network Rail will efficiently spend the funds government has committed. It is arguably our best plan ever created.

All of which will assist the railway network to drive better connectivity, a precursor to economic growth and make a better railway for a better Britain.

The Directors' report and the Regulatory financial statements were approved by the Board of Directors on 11 July 2018.

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 2018 and (save as otherwise provided in Condition 11 or the CP5 Regulatory Accounting Guidelines June 2017) 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 June 2017; (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 June 2017 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 June 2017;
- include narrative explaining the material variances from the previous year (where required by CP5 Regulatory Accounting Guidelines June 2017) 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 June 2017 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 June 2017 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 Auditor's 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 2018 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;
- Statement 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 Auditor's 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), 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).

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 2018 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 Auditor's 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 2018, 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)

13 July 2018



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 2018, 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 2.28 of the Regulatory Accounting Guidelines (RAGs) dated June 2017, 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.

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 'M. Rudman', with a stylized flourish at the end.

Mark Rudman

Named Independent Reporter

Ove Arup & Partners Ltd

4 July 2018

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 June 2017.

The accounting policies adopted in presenting these Regulatory financial statements are consistent with the CP5 Regulatory Accounting Guidelines ("RAGs") issued by the ORR in June 2017. These are consistent with those detailed in the Company's statutory financial statements for the year ended 31 March 2018 which were approved by the Directors on 27 June 2018 with the following notable exceptions:

Inflation

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

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 40 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 2017 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.

Accounting policies continued

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.

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 after adjusting for the costs of the divestment programme. In the statutory accounts, profit on the sale of properties is shown as a separate item in the Income Statement to comply with IAS1 'Presentation of Financial Statements'. 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

Accounting policies continued

- (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
- (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 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	4,480	4,535	(55)	18,042	17,976	66	4,550
Fixed Income	519	503	16	1,789	1,712	77	407
Variable Income	1,138	1,267	(129)	4,616	4,817	(201)	1,163
Other Single Till Income	995	1,023	(28)	3,614	3,762	(148)	906
Opex memorandum account	4	-	4	20	-	20	(2)
Total Income	7,136	7,328	(192)	28,081	28,267	(186)	7,024
Operating expenditure							
Network operations	596	425	(171)	2,266	1,808	(458)	575
Support costs	396	453	57	1,612	1,946	334	350
Traction electricity, industry costs and rates	650	733	83	2,474	2,624	150	605
Network maintenance	1,380	1,124	(256)	5,347	4,716	(631)	1,370
Schedule 4	220	225	5	933	942	9	225
Schedule 8	219	5	(214)	643	18	(625)	194
Total operating expenditure	3,461	2,965	(496)	13,275	12,054	(1,221)	3,319
Capital expenditure							
Renewals	2,413	2,647	234	11,725	11,137	(588)	2,882
PR13 enhancement expenditure	3,153	3,664	511	12,808	14,078	1,270	3,503
Non PR13 enhancement expenditure	150	-	(150)	597	-	(597)	56
Total capital expenditure	5,716	6,311	595	25,130	25,215	85	6,441
Other expenditure							
Financing costs	2,347	2,260	(87)	7,126	7,626	500	1,867
Corporation tax (received)/paid	-	-	-	(2)	4	6	2
Total other expenditure	2,347	2,260	(87)	7,124	7,630	506	1,869
Total expenditure	11,524	11,536	12	45,529	44,899	(630)	11,629

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

In £m 2017-18 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 in the other statements of this document.
- (2) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £180m higher than the regulatory comparative. This was mostly due to higher running costs, due to lower than expected efficiencies, higher compensation under train performance mechanisms, higher interest costs driven by higher inflation and lower freight turnover which were largely offset by lower capital expenditure as programmes were deferred into future years.
- (3) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (4) Income – Fixed income in the year was slightly higher than the determination due to Network Rail providing additional services to operators partly offset by differences between inflation rates used to calculate fixed income payable by operators and the rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these discrepancies which, along with additional services provided throughout the control period has delivered the favourable income in the control period to date. This is discussed in more detail in Statement 6a. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year.
- (5) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target with the lower electricity being the overwhelming contributor. Income is lower than the previous year mainly due to lower Schedule 4 Access Charge Supplements. This type of income is contractually set through the determination so the decrease is in line with the regulator's plans. These variances are set out in more detail in Statement 6a.
- (6) Income – Other single till income in the year is lower than the determination assumption mainly due to lower freight income, partly offset by additional services offered to operators. Income for the control period to date is lower than expected, mainly due to changes in the way certain capital programmes are funded, which is offset by a corresponding saving in Financing costs. Excluding these items, income is higher than the determination as a result of station and depot facilities provided to operators offsetting lower freight income. Income is higher than the previous year due to changes in the ways that projects are financed, which results in higher interest costs. These variances are set out in more detail in Statement 6a.

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

In £m 2017-18 prices unless stated

- (7) 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 (June 2017). This year's small positive amount is reported due to Business Rates being higher than planned. The variances are set out in more detail in Statement 10.
- (8) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.
- (9) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are higher than the previous year which, as noted in last year's Regulatory financial statements, benefited from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.
- (10) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates and British Transport Police costs. The savings made in the control period to date are also due to these factors. Costs are higher than the previous year as a result of increased Business rates following a widely-publicised increase in business rates across the country. Traction electricity, industry costs are discussed in more detail in Statement 7a.
- (11) 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. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are broadly in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.
- (12) Operating expenditure - Schedule 4 costs are broadly similar to the determination as higher average costs of possessions has been alleviated by deferral of renewals activity requiring network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs this year are broadly in line with the previous year which reflects lower possession productivity, higher rates payable to operators and the disruptive impact of Storm Emma partly offset by reductions in renewals activities requiring possessions. Schedule 4 costs are discussed in more detail in Statement 10.

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

In £m 2017-18 prices unless stated

- (13) 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. Increased network traffic, infrastructure failures and some one-off incidents, notably the snow that Storm Emma brought, contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year mainly due to ever-tightening benchmarks. Neutralising for the change in benchmarks, year on year costs are broadly in line with 2016/17. Schedule 8 costs are discussed in more detail in Statement 10.
- (14) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to net deferrals of activity partially offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is £0.6bn higher than the determination which included an assumption that £0.3bn of activity planned at an individual asset level would be deferred and includes £0.3bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Renewals are lower than the previous year with decreases across almost all categories as Network Rail seeks to invest its limited funds in the most optimal way. As the regulator expected more renewals work was undertaken in earlier years of the control period. Renewals costs are discussed in more detail in Statement 9a.
- (15) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes. This is partly driven by prioritisation of investment in core activities as well as reprofiling of expenditure between years. The control period to date position is caused by similar factors. The current year also has lower expenditure as a result of DfT transferring £300m of Network Rail funded programmes to DfT funded. Investment is lower than the previous year reflecting the net changes in delivery across a number of programmes but mostly due to the aforementioned £300m switch in funding. These variances are set out in more detail in Statement 3.
- (16) 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 so the higher investment in the current year and the control period to date is axiomatic. Expenditure is higher than the previous year following additional projects requested by DfT to improve the railway network. These items are set out in more detail in Statement 3.
- (17) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are slightly higher than the determination due to higher market rates and inflation that the regulator predicted. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accruing debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

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

In £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	57,124	55,516	1,608
Indexation to 2016-17 prices	4,629	4,498	131
Opening RAB for the year (2016-17 prices)	61,753	60,014	1,739
Indexation for the year	2,396	2,328	68
Opening RAB (2017-18 prices)	64,149	62,342	1,807
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	2,192	2,647	(455)
PR13 enhancements	3,080	3,001	79
Non-PR13 enhancements	164	-	164
Total enhancements	3,244	3,001	243
Amortisation	(2,787)	(2,787)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2018	66,798	65,203	1,595

RAB Regulatory financial position - cumulative, Great Britain

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	52,166	56,886	60,698	64,149	52,166
Adjustments for the actual capital expenditure outturn in CP4	1,274	-	-	-	1,274
Renewals	2,954	3,021	2,628	2,192	10,795
PR13 enhancements	2,943	3,118	3,416	3,080	12,557
Non-PR13 enhancements	118	236	82	164	600
Total enhancements	3,061	3,354	3,498	3,244	13,157
Amortisation	(2,563)	(2,563)	(2,675)	(2,787)	(10,588)
Adjustments for under-delivery of regulatory outputs	(6)	-	-	-	(6)
Closing RAB	56,886	60,698	64,149	66,798	66,798

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

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (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 the first two years of the control period 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 efficient overspends (the value of which cannot all be logged up to the RAB) more than offset by re-profiling activity to the final year of the control period and beyond. 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 slightly higher than the regulator assumed. This is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB. There are significant contributions from Crossrail, Thameslink, Northern Hub and Edinburgh Glasgow Improvements Programme (EGIP) projects.

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

In £m 2017-18 prices unless stated

- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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. The amounts in this category have been relatively low for the whole control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.
- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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:
- 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.
 - IOPI (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	2,816	2,892	2,782	2,647	11,137
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	242	-	-	-	242
Capitalised financing on CP4 deferrals	5	10	11	12	38
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (renewals)	3,063	2,902	2,793	2,659	11,417
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(759)	(657)	(924)	(1,086)	(3,426)
Capitalised financing on acceleration / (deferrals) of expenditure	(16)	(48)	(83)	(131)	(278)
Adjustments for efficient overspend	799	989	997	850	3,635
Capitalised financing on efficient overspend	17	56	102	146	321
25% retention of efficient overspend	(199)	(247)	(249)	(213)	(908)
Capitalised financing on efficient overspend 25% retention	(4)	(14)	(25)	(36)	(79)
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	64	43	14	(5)	116
Capitalised financing on efficient overspend through spend to save framework	1	4	5	(2)	8
Retention of efficient overspend through spend to save framework	(12)	(6)	(1)	9	(10)
Capitalised financing on efficient overspend through spend to save framework retention	-	(1)	(1)	1	(1)
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	2,954	3,021	2,628	2,192	10,795
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	(3)	(8)	(9)	10	(10)
Adjustment for 25% retention of efficient overspend	212	254	251	204	921
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	-	-	12	7	19
Total actual renewals expenditure (see statement 9)	3,163	3,267	2,882	2,413	11,725

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

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	3,141	3,281	3,065	3,001	12,488
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	212	(210)	-	-	2
Capitalised financing on CP4 deferrals	4	5	-	-	9
Baseline adjustments	-	235	803	663	1,701
Capitalised financing on Baseline adjustments	-	5	28	60	93
Adjustments to DfT funding	(166)	-	-	-	(166)
Capitalised financing on adjustments to DfT funding	(4)	(7)	(7)	(8)	(26)
Other adjustments	27	26	-	-	53
Capitalised financing on other adjustments	1	2	2	2	7
Adjusted PR13 determination (enhancements)	3,215	3,337	3,891	3,718	14,161
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(389)	(341)	(739)	(819)	(2,288)
Capitalised financing on acceleration / (deferrals) of expenditure	(8)	(24)	(48)	(84)	(164)
Adjustments for efficient overspend	77	21	197	123	418
Capitalised financing on efficient overspend	2	4	8	16	30
25% retention of efficient overspend	(19)	(5)	(50)	(30)	(104)
Capitalised financing of 25% efficient overspend	-	(1)	(2)	(4)	(7)
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 for efficient overspend relating to projects with tailored protocols or fixed price agreements	71	168	177	185	601
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	(11)	(42)	(29)	(43)	(125)
Capitalised financing relating to projects with tailored protocols or fixed price	1	5	11	18	35
Adjustments for efficient overspend through spend to save framework	5	(5)	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	1	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	2,943	3,118	3,416	3,080	12,557
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	133	227	65	150	575
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(17)	-	-	(8)	(25)
Capitalised financing on non-PR13 enhancements expenditure	2	9	17	22	50
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Other adjustments	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	118	236	82	164	600
Total enhancements (added to the RAB - see statement 2a)	3,061	3,354	3,498	3,244	13,157
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	2	1	(8)	(22)	(27)
Adjustment for retention of efficient overspend	48	46	79	81	254
Other adjustments	21	10	(9)	-	22
Adjustment for retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	509	333	467	753	2,062
Other adjustments	-	-	-	-	-
Total actual enhancement expenditure (see statement 3)	3,641	3,744	4,027	4,056	15,468

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

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening three years of the control period, 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 (June 2017), 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 June 2017) 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 with notable contributions from Track, Signalling and Civils projects. 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.

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

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure. The reduction reported in the current year reflects decreased planned expenditure in this category across the whole control period compared to planned levels of investment included in Business Plans earlier in the control period.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. The increase reported in the current year reflects the reduced expenditure on such schemes compared to earlier plans as noted above.
- (9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.
- (10) 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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, 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 first year of the control period were reversed in the second year of the control period 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).

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

In £m 2017-18 prices unless stated

- (11) 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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, 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).
- (12) 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. In addition, in the current year a further capital grant of £300m was received from the DfT as a contribution to Network Rail's enhancement programme. This has resulted in a reduction in the RAB with a corresponding increase in PAYGO enhancement expenditure.
- (13) Enhancements – Other adjustments – the amounts in the opening two years of the control period 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.
- (14) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process, the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond.
- (15) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), 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 June 2017) 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, with notable contributions from Northern Hub and Edinburgh Glasgow Improvements Programme (EGIP) projects. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (16) 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.

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

In £m 2017-18 prices unless stated

- (17) 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).
- (18) 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.
- (19) 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 (June 2017) 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 was reversed 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. No expenditure in this category occurred in the current year.
- (20) Enhancements – retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating additional income.
- (21) 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 2b: RAB - reconciliation of expenditure, Great Britain – continued

In £m 2017-18 prices unless stated

- (22) Non-PR13 enhancements – Other adjustments (including discretionary investment) – this category covers expenditure where investment is not eligible for RAB addition. The current year includes part of the investment on the Gospel Oak to Barking electrification programme which is retained by Network Rail as well as a number of smaller discretionary schemes over and above the Hendy projects. Expenditure in earlier years of the control period 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 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	22	63	41	78	143	65
Stations - National Station Improvement Programme (NSIP)	13	24	11	55	80	25
Stations - Access for All (AfA)	11	(1)	(12)	105	98	(7)
Development	6	1	(5)	122	143	21
Level crossing safety	27	24	(3)	78	112	34
Passenger journey improvement	16	54	38	32	119	87
The strategic rail freight network	23	59	36	131	218	87
Scottish stations fund	2	7	5	7	30	23
Scottish strategic rail freight investment fund	15	7	(8)	19	28	9
Scottish network improvement fund	10	14	4	37	56	19
Future network development fund	-	2	2	5	9	4
Total funds	145	254	109	669	1,036	367
Committed projects						
Thameslink	391	359	(32)	1,862	1,691	(171)
Crossrail	352	219	(133)	1,983	1,649	(334)
GW electrification (Paddington to Cardiff)	556	709	153	2,161	2,344	183
Adjustment for DfT funding - GW electrification	-	-	-	(79)	(79)	-
Bridgend to Swansea electrification	6	(10)	(16)	21	20	(1)
East West Rail (committed scheme)	39	66	27	287	256	(31)
Northern Hub	556	339	(217)	1,350	1,307	(43)
IEP Programme	129	131	2	341	409	68
North Trans Pennine Electrification East	81	188	107	159	323	164
North Trans Pennine Electrification West	-	-	-	-	-	-
NW Electrification	-	-	-	(3)	-	3
Reading station area redevelopment	(18)	-	18	112	169	57
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(88)	(88)	-
Stafford area improvement scheme	12	15	3	181	175	(6)
West coast power supply upgrade	37	7	(30)	201	186	(15)
Edinburgh Glasgow Improvements Programme (EGIP)	1	-	(1)	10	17	7
Electrification of Springburn to Cumbernauld						
Edinburgh Glasgow Improvements Programme (EGIP)	106	2	(104)	510	202	(308)
Edinburgh to Glasgow Electrification						
Edinburgh Glasgow Improvements Programme (EGIP)	(5)	-	5	3	42	39
Edinburgh Gateway Station						
Edinburgh Glasgow Improvements Programme (EGIP)	3	67	64	51	291	240
Infrastructure Projects						
Border Railway Project	-	1	1	195	193	(2)
Total committed projects	2,246	2,093	(153)	9,257	9,107	(150)
Named schemes						
The Electric Spine:						
MML electrification	121	274	153	286	465	179
Derby station area remodelling	35	53	18	56	75	19
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	2	2	-	8	8
Electric spine (DfT SoFA amount)	88	99	11	219	310	91
Total Electric Spine	244	428	184	561	858	297
Thames Valley:						
Acton to Willesden electrification (WCML)	-	-	-	1	3	2
Thames Valley branches	2	(7)	(9)	4	2	(2)
Oxford Station area capacity and station enlargement	26	44	18	50	81	31
Total Thames Valley	28	37	9	55	86	31
Midlands						
Walsall to Rugeley electrification	41	10	(31)	90	77	(13)
Total Midlands	41	10	(31)	90	77	(13)
Yorkshire						
Huddersfield station capacity improvement	-	(1)	(1)	(1)	-	1
Total Yorkshire	-	(1)	(1)	(1)	-	1

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

In £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Airports & ports:						
Western access to London Heathrow Airport	-	-	-	7	8	1
Service Improvements in the Ely Area	-	-	-	1	2	1
Redhill additional platform	33	33	-	58	57	(1)
Total airports & ports	33	33	-	66	67	1
South East						
Waterloo	186	151	(35)	369	307	(62)
Total South East	186	151	(35)	369	307	(62)
West						
Dr Days to Filton Abbey Wood capacity improvements	30	44	14	60	76	16
Bristol Temple Meads passenger capacity	-	6	6	2	9	7
Total West	30	50	20	62	85	23
Scotland						
Aberdeen to Inverness journey time improvements and other enhancements	79	103	24	126	149	23
Rolling programme of electrification (Scotland)	132	70	(62)	264	171	(93)
Carstairs journey time improvements	-	1	1	1	2	1
Highland main line journey time improvements (phase 2)	5	31	26	10	122	112
Motherwell area stabling	-	2	2	-	11	11
Motherwell resignalling enhancements	2	-	(2)	2	3	1
Edinburgh South Suburban Electrification	-	-	-	-	-	-
Total Scotland	218	207	(11)	403	458	55
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	(2)	(2)	-	-	-
South London HV traction power upgrade	1	6	5	3	9	6
West Anglia main line capacity increase	29	37	8	52	68	16
Bow Junction upgrade with Chelmsford & Wickford turnbacks	-	5	5	4	9	5
West of England DMU capability works	14	14	-	17	16	(1)
East Kent resignalling phase 2	-	-	-	55	57	2
Stevenage and Gordon Hill turnbacks	-	3	3	3	8	5
Reading, Ascot to London Waterloo train lengthening	5	4	(1)	31	38	7
Uckfield line train lengthening	-	(1)	(1)	20	20	-
MML long distance high speed services train lengthening	2	7	5	4	19	15
Route gauge Clearance for different EMUs	7	25	18	18	41	23
Bradford Mill Lane capacity	-	2	2	-	4	4
Leeds station capacity	-	(2)	(2)	-	-	-
Chiltern Main Line Train Lengthening	-	3	3	17	16	(1)
North West train lengthening	2	12	10	2	22	20
New Cross Grid	8	-	(8)	14	16	2
Anglia traction power supply upgrade	14	19	5	27	44	17
Sussex traction power supply upgrade	50	67	17	83	104	21
Wessex traction power supply upgrade	4	6	2	45	50	5
London Victoria station capacity improvements	-	-	-	1	1	-
Kent traction power supply upgrade	11	12	1	30	36	6
LNE routes traction power supply upgrade	6	24	18	7	33	26
Total HLOS capacity metric schemes:	153	241	88	433	611	178
Third party funded						
Welsh Valley lines electrification	-	-	-	2	3	1
Total Third Party funded	-	-	-	2	3	1

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

In £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
CP4 Project Rollovers						
Birmingham New St Gateway	5	(19)	(24)	191	213	22
Bromsgrove Elec - Midlands Improvements Programme	11	6	(5)	58	64	6
Redditch Branch Enhancement	-	-	-	18	18	-
Kent power supply upgrade (CP4)	2	(7)	(9)	66	68	2
Barry - Cardiff Queen Street corridor	-	-	-	13	14	1
Capacity relief to the ECML	3	1	(2)	87	82	(5)
North Doncaster Chord	-	-	-	-	-	-
East Coast mainline overhead electrification	-	-	-	-	-	-
DC Regeneration	-	-	-	2	1	(1)
Package 4, Gravesend Train Lengthening	-	-	-	-	(1)	(1)
Package 7,10 Car Park West Suburban Railway	-	-	-	16	17	1
Wessex Automatic Selective Door Opening	-	-	-	1	2	1
Battersea Park Station Platform Lengthening	-	-	-	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	6	2
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
MML linespeed improvements	-	2	2	27	24	(3)
Westerleigh Junction - Barnt Green linespeed increase	-	3	3	-	6	6
Station Security	1	-	(1)	1	-	(1)
Other CP4 Rollover	1	-	(1)	6	-	(6)
Total CP4 rollovers	23	(14)	(37)	491	515	24
Other projects						
Seven day railway projects	-	6	6	58	64	6
ERTMS Cab fitment	2	(8)	(10)	31	74	43
R&D allowance	-	1	1	14	20	6
Depots and stabling	59	128	69	189	358	169
Income generating property schemes	45	44	(1)	359	335	(24)
Other income generating investment framework schemes	-	4	4	-	17	17
Adjustment for DFT Funding - Other	(300)	-	300	(300)	-	300
Total other projects	(194)	175	369	351	868	517
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	3,153	3,664	511	12,808	14,078	1,270
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	-	-	-	25	-	(25)
DNOs clearance work	-	-	-	21	-	(21)
OCSLNE SCPF Newcastle Station	-	-	-	20	-	(20)
Tram Train Project	15	-	(15)	8	-	(8)
NW Electrification	(1)	-	1	98	-	(98)
Borders New Railway	-	-	-	8	-	(8)
W001cReadingIndFeeder	29	-	(29)	53	-	(53)
Ilkestone New Station	-	-	-	6	-	(6)
Cambridge North Stn (Non Cash)	6	-	(6)	6	-	(6)
Crossrail	17	-	(17)	17	-	(17)
G001 Gospel O2B OLE (Non Cash)	39	-	(39)	39	-	(39)
Other government sponsored schemes	38	-	(38)	72	-	(72)
Total Government sponsored schemes	143	-	(143)	373	-	(373)
Network Rail spend to save schemes						
Mountfield	-	-	-	33	-	(33)
Other spend to save schemes	-	-	-	1	-	(1)
Total Network Rail spend to save schemes	-	-	-	34	-	(34)
East West Rail (committed scheme)	-	-	-	148	-	(148)
Other	(1)	-	1	11	-	(11)
Total Schemes promoted by third parties	(1)	-	1	159	-	(159)
Discretionary Investment	8	-	(8)	31	-	(31)
Total non PR13 enhancement expenditure	150	-	(150)	597	-	(597)
Total Network Rail funded enhancements (see Statement 1)	3,303	3,664	361	13,405	14,078	673
Third Party PAYG	753	-	(753)	2,063	-	(2,063)
Total enhancements (see statement 2b)	4,056	3,664	(392)	15,468	14,078	(1,390)

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

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.
- (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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £3,303m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£4,056m) less the PAYGO schemes funded by third parties (£753m).
- (5) Investment expenditure this year was broadly in line with the previous year as delivery of the enhancement portfolio continues to make significant progress.

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

In £m 2017-18 prices unless stated

(6) 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 review) 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. Overall, expenditure in this category this year was lower than the baseline, continuing the trend of earlier years of the control period. Noteworthy variances between expenditure in the year and the baseline are set out below:

- a. East Coast connectivity – this fund is used to improve capacity and reduce journey times on the East Coast main line. Expenditure in the current year is lower than the baseline as some of the activity on this fund has now been deferred from the current control period to CP6. This includes projects at Werrington (grade separated access to the GN/ GE line) and York North throat.
- b. Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Whilst expenditure is less than the baseline in the current year and the control period to date the final year of the control period is expected to have increased investment so that overall costs will match the baseline by the end of CP5. Notable projects this year included Bognor Regis, Stood and Eastbourne stations.
- 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. Investment in the control period to date has been higher than planned as additional schemes have been identified. This year included delivery of important projects at Finsbury Park, Westerton and Burnham stations. Minimal expenditure is planned for the final year of the control period as designated funds have now been utilised.
- d. Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is slightly higher than the baseline but is lower than in the control period to date due to lower than expected investment in 2015/16. This underspend is anticipated to be recovered next year.
- e. Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year was in broadly consistent with the Hendy baseline but is still behind for the control period to date largely as a result of contractor disputes leading to delay in delivery in earlier years. Slower delivery has also been caused by local council planning issues on certain projects, delays to coincide delivery with other projects (including non-rail items) and difficulties acquiring required land. Expenditure in the final year of the control period is expected to be higher than the baseline, bringing the total CP5 investment in line with the Hendy plan.
- 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. Whilst expenditure was higher than the previous year it was significantly lower than the baseline this year and in the control period to date as work has been deferred into future control periods. Fewer schemes have been identified this control period than expected that meet the criteria for investing in the fund.

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

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- 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. Although expenditure is higher than the previous year it is less than the baseline this year and the control period to date but is largely planned to be caught up in the final year of the control period. This includes major investment in the Ipswich to Felixstowe capacity project, as well as works at Southampton, Ely and Peak Forest to London works.
 - h. Scottish Stations Fund – this fund will be invested in improving the public's access to railway services. Delivery in the current year has been lower than planned as fewer suitable projects have been identified, a trend which has been repeated throughout the control period. There is a significant amount of work planned for the final year of the control period to utilise some of the underspend from earlier years of the control period.
 - 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. Expenditure in the year is higher than the baseline as some of the underspends from earlier in the control period has been mitigated. Major projects delivered in 2017/18 included work on the Dunblane-Stirling line and Motherwell North. Expenditure is expected to be lower than the baseline for the control period, including deferral of the Edinburgh suburban electrification project into CP6 and changes in the remit of other projects from Transport Scotland.
 - 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 and control period to date is lower than the determination. Most of this is expected to be caught up in the final year of the control period when major projects include Polmadie & Rutherglen developments, Motherwell North and depot improvements.
 - 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. Expenditure in the year and the control period to date is slightly lower than the baselines.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is higher than the baseline, although this is the net position across a number of projects, some of which have spent more than the baseline this year (such as Crossrail and Edinburgh Glasgow Improvement Programme) and some which have spent less (such as IEP Programme and GW electrification (Paddington to Cardiff)). The 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 the control period to date is higher than the baseline. This is mostly due to underperformance and 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).

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

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- 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 higher than the regulator's determination in the year and control period to date as some of the work has been accelerated from future years into the current year to help meet the programme milestones. In addition, some of the extra expenditure is due to negative financial performance (reported in Statement 5a) as the total programme is now expected to cost more than the baseline funding available. 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 is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is lower than the baseline this year, which has also caused the majority of the underspend in the control period to date. The savings in the control period to date are largely due to slower progress on the programme. This has been caused by a variety of factors, including workings around endangered species and listed buildings, delivery of more electricity masts than planned, rising subcontractor costs necessitating re-designing works to something more cost-effective and difficulty acquiring long enough possession windows to deliver the scope. These delays have led to updates to the agreed dates of milestone delivery.
- 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. Bridgend to Swansea electrification (sometimes referred to as South Wales Main Line Electrification) - this project facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes. Investment for the control period to date is consistent with the baseline.
- f. East West Rail - the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is lower than the baseline this year, which negates some of the additional expenditure in earlier years of the control period. The project is split into two phases, elements of the second phase planning and design have been accelerated so the programme can dovetail with construction of HS2. Higher costs for the control period to date are also partly caused by increased total project costs which has resulted in financial underperformance being recognised (refer to Statement 5a).
- g. 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. Costs in the year are higher than the baseline, reflecting a catch up of work deferred earlier in the control period and higher programme costs. Issues have included: overoptimistic estimates of how quickly designs could be completed and contracts granted, planning delays and restrictions (including numerous on-going public inquiries and discovery of underground mine shafts) and a main contractor entering receivership in 2017/18. As a result of these delays and extra planning, financial underperformance has been recognised (refer to Statement 5a). Total programme costs are expected to cost more than the baseline included in the Hendy review.

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

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- h. 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 in the year is in line with the baseline but remains behind for the control period to date. As noted in last year's Regulatory Financial Statements, activity has been re-profiling into future years following contractor and resource difficulties as well as technology and changes to project and output specifications. Changes to milestones have been agreed with DfT for elements of the East Coast scheme. In addition, there are some reductions in programme cost which have resulted in financial outperformance being recognised this year (refer to Statement 5a).
- i. 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. Investment in the current year is lower than the baseline, adding to delays earlier in the control period. Delays have been caused by re-organisation of various projects under a single programme team to improve accountability and planning synergies. Delays have also been caused by similar factors to other electrification programmes, including: constrained supply chain, technical problems with more complex layouts and delays connecting to power sources.
- j. North Trans Pennine Electrification West - this should be considered in conjunction with North Trans Pennine Electrification East (see above) as the baseline for this programme has been expanded to include the West element.
- 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. The credit balance in the current year relates to favourable settlement of commercial disputes. There is still expected to be some costs in the final year of CP5, but overall control period costs are expected to be lower than the Hendy baseline. The delay in overall delivery has been mostly due to remediation of a spoil heap and improve Cow Lane highway as part of the scope of works. The control period to date also benefits from financial performance (refer to Statement 5c) as tight fiscal control has allowed for a reduction in project contingencies and a decrease in the total anticipated costs of the project.
- 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. Expenditure in the current year is slightly lower than the baseline which brings the programme costs to date largely in line with the Hendy target.
- n. West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the Northern programmes noted above. Costs in the control period to date are higher than the baseline, mostly as a result of increased programme costs which has resulted in financial underperformance being recognised (refer to Statement 5c).

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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. This programme should be considered in totality across the various sub-projects. Expenditure in the year and the control period to date is higher than the regulatory assumption. This is partly due to increased expected programme costs which has resulted in recognition of financial underperformance (refer to Statement 5c) which has been somewhat offset by project deferrals. Spend in the current year is notably lower than 2016/17 when, as noted in last year's Regulatory Financial Statements, achieving regulatory targets necessitated extra investment in electrification parts of the programme.
 - 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. Costs in the year are minimal as the programme has largely completed.
- (8) PR13 funded schemes – named schemes - expenditure in the year is significantly less than the baseline. This is due to variances across a number of schemes, with the largest variance arising on MML Electrification. The control period to date variance is driven by a net position across a number of projects, but with the largest single contribution coming from MML Electrification. 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. Parts of this programme have been deferred into CP6. The ambitious quantity of electrification works planned by Network Rail for CP5 has proven to be undeliverable. The reductions in the scope of the Midland Mainline Electrification in CP5 helps free up resources and funds to deliver other programmes considered to be of greater benefit to passengers and taxpayers. The extension to the programme timescales have resulted in financial underperformance being recognised this control period (refer to Statement 5).
 - 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 year is lower than the baseline, which is causing the lower expenditure in the control period to date. Some parts of the programme are now expected to be delivered in the final year of the control period, but agreed regulatory milestones are still expected to be achieved.
 - c. Oxford-Bletchley-Bedford electrification - this project is part of a wider electrification strategy to improve regional and national connectivity and links to ports and airports for both passengers and freight to support economic development. Activity in the current year and control period to date has been minimal compared to the baseline as other parts of the company's electrification programme have received priority.

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- d. 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 in the control period to date is lower than the baseline as elements of the programme have been deferred into future years. The uncertainty over the progression of the Midland Main line Electrification, which was paused whilst Network Rail undertook a full strategic review of enhancements but later restarted following DfT discussions, has had a knock-on impact on the advancement of this scheme, particularly Bedford to Kettering. Expenditure in the current year is higher than 2016/17 now that the programme has been recommenced.
- e. Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with the baseline there has been minimal activity so far this control period.
- f. 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. Expenditure for the control period to date is largely in line with the Hendy target.
- g. Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along the Oxford Corridor. Expenditure is lower than the baseline in the current year and control period to date which reflects delays in contract award (as value engineering options are assessed) and restricted network access to undertake works. Whilst investment is expected to ramp up in the final year of the control period parts of the programme have been deferred until CP6 to fit in with the timescales for other projects in the area, thus minimising passenger disruption and maximising delivery efficiencies.
- h. 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 in the current year is higher than the baseline, bringing the control period to date position in excess of the Hendy target which has mainly been caused by increased overall programme costs and prolongation of the project. As a result financial underperformance has been recognised in the current year (refer to Statement 5c).
- i. Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. Expenditure in this control period is expected to be minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.
- j. 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.
- k. Service improvements in the Ely area – this project will develop a scheme which improves capacity in the area by developing an operationally flexible junction that can deliver multiple train moves simultaneously. This is an enabling project to allow for a future uplift in trains across the junction, once other (currently unfunded) works are completed. In line with the Hendy baseline, activity in the control period to date is minimal as it has been agreed that the scheme will now be delivered in the next control period.

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- l. 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. However, as the project is now expected to cost more than the baseline over its life cycle (arising from extra work to meet timetable commitments) some financial underperformance has been reported for CP5 (refer to Statement 5c).
- m. 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. Investment in the year and the control period to date is higher than baseline mostly due to acceleration of activity from future years to meet programme milestones. There was significant investment in this programme in the current year, including delivery of works around the station as part of a large blockade which necessitated closing numerous platforms during the summer.
- n. 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 lower in the current year than the baseline, which accounts for the majority of the control period to date variance. This has been caused by a combination of underlying cost increases and so recognition of financial underperformance (refer to Statement 5a) offset by deferral of activity to dovetail with other programmes being delivered in the area.
- o. Bristol Temple Meads Passenger Capacity – This project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. Expenditure in the control period to date has been minimal and is not expected to be caught up in the remainder of the control period as parts of this programme have been postponed until CP6.
- p. 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 lower than the baseline, which accounts for the variance in the control period to date. This is mainly due to changes in blockade strategy to reduce passenger disruption and to tie into other programmes in the route, such as Rolling Programme of Electrification. In addition, some financial underperformance has been recognised on the project (refer to Statement 5c) due to higher expected programme costs.
- q. 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 higher than the regulator assumed for the year and control period to date mostly due to a re-phasing of activity within the control period. During the year, Transport Scotland and ORR reassessed the target programme costs in this area which has mitigated most of the financial underperformance reported in earlier years of the control period (refer to Statement 5a). Overall the expected programme costs are expected to be in line with the updated baseline.

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- 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. Expenditure in the current year and the control period to date is lower than the baseline as project delivery has been reprofiled into future years... Whilst activity on this programme is expected to ramp up later in the control period (notably 2018/19) total spend in CP5 is envisaged to be lower than the determination assumed.
 - 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. Furthermore, the scope of this project has been substantially reduced following agreement between Network Rail, Transport Scotland, train operators and ORR so expenditure is expected to remain minimal this control period.
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline. This is due to net variances across a number of schemes, with the largest contributions from power supply upgrade projects. The control period to date variance is driven by a net position across a number of projects, again with notable contributions from power supply upgrade projects as well as train lengthening schemes. The following notable variances between expenditure and baselines are set out below:
- a. Leeds and Sheffield capacity - this project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. Investment in the control period is expected to be minimal, which is reflected in the Hendy target, as the projects outputs have been deferred until CP6.
 - b. South London HV traction power upgrade – this project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes in CP6 and beyond. Expenditure on this programme is lower than the Hendy baseline as work has been postponed until CP6.
 - 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. In the current year, expenditure was lower than the baseline which has contributed to the lower spend in the control period to date. This includes delays in securing necessary planning consents and delays from agreeing third party funding contributions and subsequent postponement in contract awards. Whilst expenditure is expected to ramp up next year, overall some of the programme is being deferred into CP6.
 - d. Bow Junction upgrade - this project is designed to help relieve overcrowding and supports the achievement of the capacity metric in the Government's 2012 HLOS on core main line services between Shenfield and London Liverpool. Expenditure on this programme is lower than the Hendy baseline as work has been postponed until CP6.
 - e. West of England DMU capability works – this project aims to develop solutions for infrastructure capability enhancements to enable the operation of cascaded DMUs from the Thames Valley on the West Country routes. Expenditure for the year and the control period to date is in line with the Hendy baseline.

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- f. 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 this year was minimal as the project is substantially complete. Costs for the control period to date are broadly in line with the baseline.
- g. Stevenage and Gordon Hill turnbacks – this project aims to include a terminating platform bay at Gordon Hill. The Stevenage element of the programme has been de-scoped as part of the agreement with DfT and will be revisited in CP6. The reduction in expenditure compared to the Hendy target reflects this postponement.
- h. 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 in the year is in line with the Hendy target but the control period to date costs are lower. The lower investment so far this control period is a combination of higher underlying costs (which has resulted in financial underperformance being recognised (refer to Statement 5a)) more than offset by deferral. This includes deferral of the Feltham element of the scheme into future years arising from delays in local council delivering highway mitigation works. Most of the programme deferral to date is expected to be recovered in the final year of the control period.
- i. 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 in the year and the scheme to date is broadly in line the baseline as the programme is substantially complete.
- j. MML long distance high speed services train lengthening - the project will relieve overcrowding by enabling the introduction of longer trains on the MML (Midland Main Line). Minimal work was completed this year as the project has been reprofiled to later in the control period and beyond. Most of the milestones for this programme are in CP6, as agreed with the regulator and DfT. Most of the shortfall in investment in the control period to date is planned to be caught up in 2018/19.
- k. Route gauge Clearance for different EMUs – the purpose of this project is to provide infrastructure capability enhancements to enable the operation of new rolling stock in the Thames Valley area. Expenditure is lower than the baseline this year which expected the majority of the programme to be delivered in 2017/18. This has been reprofiled and is expected now to be delivered in 2018/19.
- l. Bradford Mill Lane capacity – this project aims to deliver infrastructure improvements to provide parallel moves at Bradford Interchange to/from Leeds and Halifax. Expenditure in this control period is expected to be minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.
- m. Leeds station capacity – this project aims to deliver additional capacity at Leeds Station to support the operation of longer trains and additional services on a number of routes. Expenditure in this control period is expected to be minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.

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- n. Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. The project is largely complete so there is minimal expenditure in the year. However, overall programme costs are expected to be slightly higher than the baseline which has resulted in financial underperformance (refer to Statement 5c).
- o. 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. There has been minimal work so far on this programme which has caused a variance in the current year and the control period to date. The milestones and scope of the programme have yet to be agreed with stakeholders which accounts for the slower than planned progress which is not expected to be caught up in the final year of the control period.
- p. New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure in the year is higher than the baseline which offsets most of the underspend in the opening three years of the control period, with the remainder of the under delivery expected to be caught up in the final year of the control period.
- q. 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. In the current year expenditure is lower than the baseline continuing the trend for the control period to date. This has been partly caused by delays (which are expected to be caught up in the final year of CP6), but also due to the recognition of financial outperformance (refer to Statement 5a).
- r. 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 of the Thameslink Programme. Expenditure for the year is below target which has resulted in an underspend in the control period to date. This has been partly caused by delays (which are expected to be caught up in the final year of CP6), but also due to the recognition of financial outperformance (refer to Statement 5a).
- s. 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 in the current year is slightly lower than the baseline adding to the saving in the control period to date. This underspend is expected to be caught up in the final year of the control period.
- t. 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.
- u. Kent traction power supply upgrade - The project will provide the power to facilitate 12 car operation across the route. Expenditure in the year is in line with the baseline but is lower in the control period to date. Whilst some of this is planned to be caught up next year, overall costs are lower due to the recognition of financial outperformance (refer to Statement 5a).

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- v. 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. Expenditure has been lower in the current year and the control period to date owing to restrictions in suitable resource and access. Delivery of milestones have been re-phased and agreed with DfT.
- (10) 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.
- (11) 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. Expenditure in this category is higher than the baseline mostly due to a reduction in the baseline total Birmingham New Street programme. Despite this expenditure for the control period to date is lower than the Hendy baseline due to savings on the Birmingham New Street programme. 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. Adjustments to the baseline have been made to reflect this. The Hendy baseline assumed that the programme would have progressed further by the end of 2015/16 but there remains certain remedial elements of the programme which has resulted in costs in the current year with some expected for the final year of the control period.
 - 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. Expenditure in the current year is higher than the baseline which offsets some of the underspend experienced in the first three years of the control period. This is mostly due to delays in agreeing programme delivery and possession windows with operators leading to difficulties finalising contractor agreements. Availability of suitable plant also postponed certain activities and value engineering studies have delayed progress. As a result of these factors financial underperformance has been recognised this control period on this programme (refer to Statement 5a).
 - 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 for the control period to date is in line with the baseline and this programme is substantially complete.

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- d. Kent Power Supply Upgrade (CP4) – The project will provide the power to facilitate 12 car operation across the route. Expenditure in the current year was higher than the baseline as the level of funding available was adjusted. Spend for the control period to date is lower than the baseline which reflects savings made by the project resulting in financial outperformance (Statement 5c).
 - e. Barry – Cardiff Queen Street - The output of the project is to deliver an increase in south Wales valley line services from 12 trains per hour to 16 trains per hour by January 2017. This is a CP4 capacity scheme rolled over into CP5. As the project is substantially complete there is minimal expenditure this year. Costs for the control period are in line with the Hendy baseline.
 - 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 higher than the baseline due to some unexpected costs incurred in finishing the project, including flooding arising adjacent to where the works were being delivered. As a result, financial underperformance has been recognised this control period (refer to Statement 5c).
 - g. 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 for the current year and the control period to date as this programme is substantially complete.
 - h. 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 is in line with the Hendy baseline for the current year and the control period to date as this programme is substantially complete.
 - i. 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 in the control period to date (refer to Statement 5a) and so not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a). As expected, expenditure in the current year was minimal as the project is substantially complete.
 - j. 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 in the current year is limited as most of the programmes are now complete.
- (12) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a £300m capital grant from DfT in the year which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is still lower than the ORR assumed mainly due to slower utilisation of the Depots & Stabling fund. Notable variances to the baseline include:

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- 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 baseline in the current year as the programme is now substantially complete. The lower costs of delivering the programme has resulted in some financial outperformance being recognised this control period (refer to Statement 5c) on the Mobile Maintenance System element of the programme.
- 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 this year is ahead of the baseline this year but behind for the control period to date. Some of the CP5 budget has been reallocated by DfT through the change control process, resulting in the credit budget in the current year. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs and how it connects to the Digital Railway strategy.
- c. R&D allowance – following change control procedures agreed with DfT, there is not intended to be any further investment in R&D classified as Enhancements. Instead, expenditure in the current year (and for 2018/19) is included with renewals (refer to Statement 9b).
- d. Depots & 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 in the year is much less than the baseline, continuing the trend from earlier years of the control period. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT. Investment in the current year is in line with the previous year.
- 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 6a). 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 current year is in line with the regulator's target. Expenditure for the control period to date is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. The main project this year was undertaken at London Bridge to improve the retail units to coincide with the Thameslink redevelopment works, building on the investment in the previous year.
- f. Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period to date which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry and the funds to complete such projects. As part of the Hendy review, the scarce funds available were diverted onto those programmes that were considered to deliver better strategic outputs for the industry. As a result, funding available for this category was minimised. 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.

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- g. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a £300m contribution towards its enhancement programme. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by £300m (refer to Statement 2a).
- (13) 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 2a) or recognised as financial performance (refer to Statement 5c) 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 – notable programmes in this category in the current year include Reading independent feeder (Bramley), a project which contributes to the electrification of the Great Western Main Line (GWML) which facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes and high seating capacity trains on suburban services contributing to the delivery of the HLOS capacity metric for London Paddington. In addition, extra investment has been undertaken to improve the Gospel Oak to Barking overhead line electrification, a joint project undertaken by network Rail, DfT and Rail for London.
 - b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.
 - c. Schemes promoted by third parties – the main item in this category which accounts for the majority of the expenditure this control period was East West Rail Phase 1. Part of the overall programme is funded through the PR13 allowances (and so is included in a section above in this statement) and partly through this classification. Expenditure through this fund in the current year has been minimal, continuing the trend of the previous year.
 - d. Discretionary investment – expenditure in the control period to date mainly relates to Manchester Victoria station redevelopment and, earlier in the control period, on 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). Manchester Victoria costs related to costs borne by Network Rail on that programme that were not eligible for RAB addition. In addition, costs in the current year relate to expenditure incurred by Network Rail on a number of small programmes to provide benefits to the network. As these projects were not funded through the determination or subsequent Hendy review, they resulted in financial underperformance being recognised (refer to Statement 5c).

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

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- 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. In addition DfT made a £300m contribution to the enhancement portfolio in England & Wales this year, reducing the amount that is added to the RAB in the above categories and increasing expenditure in this area. This extra grant is the main reason for the increase in expenditure in this heading this year compared to 2016/17.

Statement 4: Net debt and financial ratios, Great Britain

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	44,792	43,335	(1,457)	32,300	31,667	(633)
Income						
Grant income	(4,480)	(4,535)	(55)	(17,306)	(17,247)	59
Fixed charges	(519)	(503)	16	(1,718)	(1,645)	73
Variable charges	(1,138)	(1,267)	(129)	(4,427)	(4,626)	(199)
Other single till income	(995)	(1,023)	(28)	(3,472)	(3,615)	(143)
Total income	(7,132)	(7,328)	(196)	(26,923)	(27,133)	(210)
Expenditure						
Network operations	596	425	(171)	2,177	1,733	(444)
Support costs	396	453	57	1,544	1,864	320
Traction electricity, industry costs and rates	650	733	83	2,374	2,523	149
Network maintenance	1,380	1,124	(256)	5,133	4,520	(613)
Schedule 4	220	225	5	893	904	11
Schedule 8	219	5	(214)	621	17	(604)
Renewals	2,413	2,647	234	11,213	10,674	(539)
PR13 enhancement	3,153	3,001	(152)	12,291	11,970	(321)
Non-PR13 enhancement	150	-	(150)	570	-	(570)
Total expenditure	9,177	8,613	(564)	36,816	34,205	(2,611)
Financing						
Interest expenditure on nominal debt - FIM covered	359	774	415	1,605	2,513	908
Interest expenditure on index linked debt - FIM covered	243	300	57	961	1,090	129
Expenditure on the FIM	281	491	210	1,266	1,728	462
Interest expenditure on government borrowing	790	-	(790)	1,570	-	(1,570)
Interest on cash balances held by Network Rail	(4)	(29)	(25)	(29)	(78)	(49)
Total interest costs	1,669	1,536	(133)	5,373	5,253	(120)
Accretion on index linked debt - FIM covered	678	724	46	1,574	2,373	799
Total financing costs	2,347	2,260	(87)	6,947	7,626	679
Corporation tax	-	-	-	(2)	4	6
Other	1,174	-	(1,174)	1,220	511	(709)
Movement in net debt	5,566	3,545	(2,021)	18,058	15,213	(2,845)
Closing net debt	50,358	46,880	(3,478)	50,358	46,880	(3,478)

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

(£m, nominal prices)	March 2018 £m	March 2017 £m	March 2016 £m	March 2015 £m
Increase in net debt	5,566	4,614	3,673	4,205
Represented by:				
New debt issued				
Market issued debt	-	-	-	-
Borrowing from government	8,350	6,100	7,500	6,450
Accretion on index linked debt	678	449	224	223
Debt repaid	(3,172)	(2,389)	(3,070)	(2,378)
Decrease in net cash balances	(328)	441	(961)	246
Other	38	13	(20)	(336)
Increase in net debt	5,566	4,614	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

	March 2018		March 2017		March 2016		March 2015	
(£m, nominal prices)	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing
Market issued debt								
Nominal borrowings (GBP)	4,375	8%	5,133	11%	5,642	13%	7,497	20%
Nominal borrowings (Foreign currency)	2,064	4%	2,839	6%	4,727	11%	5,942	16%
Total nominal borrowings	6,439	12%	7,972	17%	10,369	24%	13,439	36%
Index linked borrowings (GBP)	18,790	36%	18,078	39%	17,608	42%	17,405	47%
Borrowing from government	26,765	51%	20,050	44%	13,950	34%	6,450	17%
Total regulatory borrowings	51,994	100%	46,100	100%	41,927	100%	37,294	100%
Uncleared cash items	-		-		-		-	
Obligations under finance lease	-		-		-		-	
Net cash balances	(1,636)		(1,308)		(1,749)		(789)	
Regulatory net debt as at 31 March 2018	50,358		44,792		40,178		36,505	

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	0.93	0.89	0.74	0.53	1.03
FFO/interest	2.95	2.94	2.65	2.20	2.84
Net debt/RAB (gearing)	68.8%	70.3%	72.5%	75.4%	71.9%
FFO/debt	9.6%	8.6%	8.0%	7.3%	9.3%
RCF/debt	6.3%	5.7%	5.0%	4.0%	6.0%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	n/a

E) Debt Maturity

	March 2015	March 2016	March 2017	March 2018
(£m, nominal prices)				
On demand or within one year	2,280	655	1,775	2,961
Due within one to two years	2,393	3,159	4,597	10,136
Due within two to five years	8,151	13,893	14,696	11,480
Due in more than five years	23,681	22,471	23,724	25,781
Total debt	36,505	40,178	44,792	50,358

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 June 2017.

Comments:

- (1) Network Rail's debt has increased by £5.6bn 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 2018 is £3.5bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption by £0.6bn mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network (£1.4bn), higher performance regime costs (£0.6bn), higher net operating costs (£0.8bn) and movements in working capital (£0.7bn) have driven increases in debt. These extra cash outflows have been partly mitigated by financing costs savings (£0.7bn).
- (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 other 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, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(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 made 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 higher than the regulator assumed this year. This is largely due to higher levels of average net debt during the year compared to the regulatory expectation. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are marginally higher than the previous year which, ceteris paribus, is expected as the interest expense on index-linked debt in the previous year is added to the principle for future years and there are no scheduled repayments of this type of debt in the current control period. Additionally, RPI this year has been higher than the previous year, thus increasing the interest expense recognised in 2017/18.
- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year.

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

In £m nominal unless otherwise stated

- 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are slightly lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above) which offsets higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of Crossrail project funding made available during the course of construction.
- (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 over around half of Network Rail’s gross debt by value is payable to government. The proportion of gross debt issued by government has increased since last year as existing nominal debt is refinanced (including a £750m GBP bond and a \$1,250m USD bond) and further investment in capital works is undertaken by the company. Nominal borrowings have decreased in both absolute and proportionate terms as the aforementioned bonds that have matured in the current year have been replaced by drawdowns against the DfT loan facility. 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 most of the interest costs associated with such instrument are added to the principle each year. The proportion of this index-linked debt has decreased this year as the rate of overall gross debt has increased at a 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:

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging 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 Maintenance costs and lower turnover partly offset by savings in Support costs as described elsewhere in these accounts. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are more than 15 per cent higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accruing debt instruments placed in capital markets.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

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

In £m nominal unless otherwise stated

- (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 2017/18 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings and a lower opening debt: RAB ratio at the start of the control period. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. 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 absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above) and by a favourable position at the start of the control period compared to the regulator’s expectation where extra capital works towards the end of CP4 more than offset the corresponding increase in debt. The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for the control period and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring.
- (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 adverse variance to the regulator’s assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. Network Rail also has higher debt than the regulator assumed which is partly due to differences in the CP4 exit position compared to the regulator’s expectation but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4) and adverse movements in working capital. The decline in the ratio this 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, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

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

In £m nominal unless otherwise stated

- (21) Debt maturity – section E) shows that a large proportion of Network Rail's debt is repayable in more than five years. As an infrastructure entity 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 and liquidity risk. The table in section E) shows that the proportion of short-term debt has increased during the control period. This is a direct consequence of the aforementioned reclassification of Network Rail and the impact on financing arrangements this has had. Network Rail can now only borrow directly from DfT who have decided to issue short-term debt. The proportion of short term debt is expected to increase in the remainder of the control period as legacy debt is replaced with DfT borrowings.

Statement 5a: Total financial performance, Great Britain

In £m 2017-18 prices unless stated

2017-18

	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 $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	4,480	4,535	(55)	(55)	-	-	-	-
Fixed Income	519	503	16	16	-	-	-	-
Variable Income	833	856	(23)	-	-	-	(23)	(23)
Other Single Till Income	995	1,023	(28)	(14)	-	-	(14)	(14)
Opex memorandum account	4	-	4	32	-	-	(28)	(28)
Total Income	6,831	6,917	(86)	(21)	-	-	(65)	(65)
Expenditure								
Network operations	596	425	(171)	-	-	-	(171)	(171)
Support costs	396	453	57	6	-	-	51	51
Industry costs and rates	336	288	(48)	(30)	-	-	(18)	(18)
Traction electricity	8	31	23	-	-	-	23	23
Reporter's fees	1	3	2	-	2	-	-	-
Network maintenance	1,380	1,124	(256)	-	(33)	-	(223)	(223)
Schedule 4 costs	220	225	5	-	87	-	(82)	(82)
Schedule 8 costs	219	5	(214)	-	-	-	(214)	(214)
Renewals	2,413	2,647	234	7	1,084	-	(857)	(220)
PR13 Enhancements	3,153	3,664	511	-	819	-	(308)	(73)
Non PR13 Enhancements	150	-	(150)	-	(142)	-	(8)	(8)
Financing Costs	2,347	2,260	(87)	(87)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	11,219	11,125	(94)	(104)	1,817	-	(1,807)	(935)
Total:			(180)	(125)	1,817	-	(1,872)	(1,000)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(1,000)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(150)
Under-delivery of train performance requirements (CaSL)								(52)
Missed milestones for asset management - data quality								(4)
Missed milestones for Offering Rail Better Information Services (ORBIS)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(206)
Total financial out / (under) performance to be recognised								(1,206)

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

In £m 2017-18 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 $H = G \text{ or } H = G \times 25\%$
	A	B	C Favourable / (Adverse)	D	E	F		
Income								
Grant Income	18,042	17,976	66	66	-	-	-	-
Fixed Income	1,789	1,712	77	77	-	-	-	-
Variable Income	3,423	3,421	2	-	-	-	2	2
Other Single Till Income	3,614	3,762	(148)	(175)	-	-	27	27
Opex memorandum account	20	-	20	32	-	-	(12)	(12)
Total Income	26,888	26,871	17	-	-	-	17	17
Expenditure								
Network operations	2,266	1,808	(458)	(5)	-	-	(453)	(453)
Support costs	1,612	1,946	334	61	-	-	273	273
Industry costs and rates	1,205	1,108	(97)	(37)	-	-	(60)	(60)
Traction electricity	71	107	36	-	-	-	36	36
Reporter's fees	5	13	8	-	8	-	-	-
Network maintenance	5,347	4,716	(631)	-	(51)	-	(580)	(580)
Schedule 4 costs	933	942	9	-	208	-	(199)	(199)
Schedule 8 costs	643	18	(625)	-	-	-	(625)	(625)
Renewals	11,725	11,137	(588)	19	3,031	-	(3,638)	(916)
PR13 Enhancements	12,808	14,078	1,270	-	2,283	-	(1,013)	(227)
Non PR13 Enhancements	597	-	(597)	-	(578)	-	(19)	(19)
Financing Costs	7,126	7,626	500	500	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(2)	4	6	-	6	-	-	-
Total Expenditure	44,336	43,503	(833)	538	4,907	-	(6,278)	(2,770)
Total:			(816)	538	4,907	-	(6,261)	(2,753)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(2,753)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(490)
Under-delivery of train performance requirements (CaSL)								(159)
Missed milestones for asset management - data quality								(4)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(43)
Missed Enhancement milestones								(6)
Total adjustment for under-delivery outputs								(702)
Total financial out / (under) performance to be recognised								(3,455)

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

In £m 2017-18 prices unless stated

	2017-18			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 income	(305)	(411)	106	(1,193)	(1,396)	203
Total variance not included in total financial performance:	(305)	(411)	106	(1,193)	(1,396)	203
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Crossrail finance charge	83	85	(2)	93	243	(150)
Adjustment for Welsh Valleys finance charge	-	8	(8)	-	13	(13)
Total variance not included in total financial performance:	83	93	(10)	93	256	(163)
Breakdown of variance not included in total financial performance - Support costs:						
Crossrail financing contract receipt	-	-	-	22	-	22
Spend to save adjustment	6	-	6	14	-	14
Release of CP4 long distance financial penalty provision	-	-	-	25	-	25
Total variance not included in total financial performance:	6	-	6	61	-	61
Breakdown of variance not included in total financial performance - Network Operations						
Southern resilience fund	-	-	-	(5)	-	(5)
Total variance not included in total financial performance:	-	-	-	(5)	-	(5)
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	305	411	(106)	1,193	1,396	(203)
Total variance not included in total financial performance:	305	411	(106)	1,193	1,396	(203)
Breakdown of variance not included in total financial performance - Renewals:						
Investment of CP4 long distance financial penalty	7	-	7	19	-	19
Total variance not included in total financial performance:	7	-	7	19	-	19

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

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 assess 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 is both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 in the year and the control period to date 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. The remaining variance relates to additional income network Rail has been able to generate through extra franchise income. Under the FPM guidelines agreed with ORR no financial outperformance is recorded for this.

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

In £m 2017-18 prices unless stated

- (3) Variable income – across the control period to date, Network Rail has achieved marginal outperformance 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. In the current year, financial underperformance has been recognised as growth has been unable to keep up with increases in regulatory targets. In addition, adverse movements in inflation have resulted in higher increases in the determination assumptions, as actual income is uplifted using the previous year's inflation (i.e. November 2016/17). 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. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – this year, financial underperformance has been reported. This is mainly due to lower freight income partly offset by extra income from offering additional services to train operators. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. The PR13 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 fully materialise. 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. In addition, an adjustment has been made (in Column D) to reflect income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 is treated as neutral when assessing financial performance. The underperformance recognised in Other single till income this year is mainly the result of the continued decline in freight traffic (largely driven by demand for coal transportation) which have been partly offset by extra station and depot income from offering operators additional facilities. The favourable performance in the control period to date is largely driven by extra stations and depots services offered to operators and higher property sales which have more than offset the decline in freight income. Other single till income is set out in more detail in Statement 6a.
- (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 and in the control period to date. Slow freight growth owing structural changes in the industry and lower farebox income have resulted in financial underperformance being recognised this year. For the control period to date, increases in passenger demand and consequent extra services earlier in the control period have been offset by slower passenger growth in recent years and continued issues with freight. The volume incentive is discussed in more detail in Statement 12.

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

In £m 2017-18 prices unless stated

- (6) Network operations costs in 2017/18 are approximately 30 per cent higher than the regulator assumed. 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 cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the request of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that was announced in January 2017. Again, it has been agreed with the regulator that this fund will be outside the scope of the FPM.

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

In £m 2017-18 prices unless stated

- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business, continuing the trend of earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D. In addition, receipts from restructuring contracts with Crossrail are outside the scope of FPM, as noted in the previous year's Regulatory Financial Statements.
- (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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance). The control period to date position reflects similar factors to those noted above.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. Savings in the current year and the control period to date are considered to arise as a result of timing and so no financial outperformance has been reported as the savings are expected to reverse by the end of the control period.

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

In £m 2017-18 prices unless stated

- (11) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated.

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

In £m 2017-18 prices unless stated

- (13) Schedule 8 costs – costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay per Incident has been high. Extra focus has been put on improving this metric as part of the company's strategy and improvements have been made this year but there is still potential for improvement. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included derailments at Waterloo and Paddington stations, lineside fires at Harrow and South Hampstead as well as storm damage in June 2017. Also, the issue of network trespass was a particular challenge this year with the London North West route south of Rugby particularly effected. Whilst some positive steps are being taken (such as investment in higher fencing and other technology to minimise access, increased security patrols at known hotspots and working with the Samaritans) such disruption affects performance significantly.
- (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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

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

In £m 2017-18 prices unless stated

- (15) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT and Transport Scotland to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Thameslink, Crossrail, Edinburgh Glasgow Improvements Programme (EGIP) and Northern Hub following anticipated programme increases. The control period to date position is largely dominated by these same programmes. Individual programme variances are 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). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (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 FPM recognised in the current year mainly relates to a number of small discretionary projects that were implemented to generate improvements in the network. However, as there was no funding available for these, financial underperformance is recognised. Costs earlier in the control period relate to Manchester Victoria where higher contractor costs at the end of the programme increased project costs.
- (17) Financing costs – financing costs are higher than the regulator expected mainly due to higher levels of average net debt during the year compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.
- (18) Corporation tax – no income tax payments have been made this year, although the control period to date position is favourable. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed at the end of the control period when a full picture is available.

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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

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

In £m 2017-18 prices unless stated

- (2) PPM – passenger train punctuality targets for England & Wales as well as in the Scotland geography were missed in 2017/18, continuing the trend from earlier years 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 92.4 per cent was missed by and £0.25m (cash prices) for every 0.1 per cent that the PPM target of 92.0 per cent was missed by in the Scotland geography. 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 earlier years of the control period 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 the previous years of the control period. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that this regulatory output of 2.2 per cent was missed by.
- (4) Missed enhancement milestones – in line with the regulator's rules 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 have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.
- (6) Asset management –the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this year.

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

In £m 2017-18 prices unless stated

2017-18

	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	(46)	254	(300)	(75)		(75)	-	-
Signalling	(62)	186	(248)	(62)		(62)	-	-
Civils	28	212	(184)	(46)		(42)	(4)	-
Buildings	75	115	(40)	(10)		(6)	(4)	-
Electrical power and fixed plant	(2)	50	(52)	(13)		(8)	(5)	-
Telecoms	10	14	(4)	(1)		(1)	-	-
Wheeled plant and machinery	56	56	-	-		-	-	-
IT	9	9	-	-		-	-	-
Property	11	11	-	-		-	-	-
Other renewals	155	184	(29)	(13)		(13)	-	-
Total	234	1,091	(857)	(220)		(207)	(13)	-

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	(710)	722	(1,432)	(358)		(348)	(10)	-
Signalling	410	1,302	(892)	(223)		(216)	(7)	-
Civils	(315)	473	(788)	(197)		(145)	(52)	-
Buildings	61	229	(168)	(42)		(25)	(17)	-
Electrical power and fixed plant	222	438	(216)	(54)		(20)	(34)	-
Telecoms	85	105	(20)	(5)		(2)	(3)	-
Wheeled plant and machinery	235	235	-	-		-	-	-
IT	(117)	(117)	-	-		-	-	-
Property	25	25	-	-		1	(1)	-
Other renewals	(484)	(362)	(122)	(37)		(10)	(27)	-
Total	(588)	3,050	(3,638)	(916)		(765)	(151)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

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, continuing the trend from the previous years on the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track, Civils and CP4 rollover items) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

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

In £m 2017-18 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Approximately one-quarter of this was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The practical deliveries of using High Output delivery methods resulted in a number of routes electing not to use this delivery method in 2017/18. However, there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which all contributed to the financial underperformance this year. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, including additional scope and cost at 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 has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2017-18 prices unless stated

- (4) Civils – as with the previous years of the control period, 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. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation this control period as a result of landslips and other water damage which have affected the network throughout Great Britain. These emergency works have contributed over £120m of extra costs this control period – including damage to Dover seawall, Lamington viaduct, Settle-Carlisle line and Harbury landslip. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents.
- (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. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, some extra work has been undertaken to improve asset condition, notably at Liverpool Moorfields, Manchester Victoria and Carlisle.

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

In £m 2017-18 prices unless stated

- (6) Electrical power and fixed plant – financial underperformance has been reported for this asset category in the current year, continuing the trend from earlier years of the control period. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. The costs of the SCADA (Supervisory Control and Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation, which has been exacerbated by priority for plant being given to support the Great Western electrification enhancement programme. 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. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, 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 earlier years of the control period. This is mostly due to the efficiencies assumed in the regulator's targets not being achieved. The efficiency plans for the control period included better consolidation and planning of workbank requirements to achieve contracting pricing and delivery savings. However, this assumed that activity could be deferred with minimal adverse operational impact and that routes could be sufficiently co-ordinated in their planning. Financial underperformance was also partly due to lower than planned volumes delivered for Customer information systems, Public address systems and CCTV. Reductions in volumes do not result in a linear reduction in costs as there is a certain level of fixed costs which is spread across fewer units.
- (8) Other – this is made up of a number of different categories including the following:
- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
 - b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.
 - c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constrains the activities required to build capacity for CP6 and beyond is now funded through renewals.

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

In £m 2017-18 prices unless stated

- d. CP4 rollover: 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). The underperformance recognised in the control period to date includes notable contributions from electrification projects and FTN.

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

In £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Variance due to ECAM adjustment	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(32)	-	6	-	(38)	(9)
East West Rail (committed scheme)	27	-	35	-	(8)	(2)
IEP Programme	2	-	(8)	-	10	3
Reading station area redevelopment	18	-	(1)	-	19	4
West coast power supply upgrade	(30)	-	(10)	-	(20)	(5)
Edinburgh Glasgow Improvements Programme (EGIP)	(36)	-	19	-	(55)	(14)
MML electrification	153	-	156	-	(3)	(1)
Walsall to Rugeley electrification	(31)	-	(12)	-	(19)	(4)
Redhill additional platform	-	-	10	-	(10)	(3)
Rolling programme of electrification (Scotland)	(62)	-	(102)	-	40	10
Kent power supply upgrade	(9)	-	(12)	-	3	-
Chiltern Main Line Train Lengthening	3	-	3	-	-	-
Aberdeen to Inverness journey time improvements and other enhancements	24	-	25	-	(1)	-
Capacity relief to the ECML	(2)	-	1	-	(3)	(1)
Seven day railway projects	6	-	6	-	-	-
MML linespeed improvements	2	-	(4)	-	6	2
Manchester Victoria	-	-	-	-	-	-
Crossrail	(133)	-	14	-	(147)	(34)
Northern Hub	(217)	-	(146)	-	(71)	(18)
Waterloo	(35)	-	(39)	-	4	1
Bromsgrove Elec - Midlands Improvements Programme (E-F)	(5)	-	1	-	(6)	(1)
Dr Days Jcn to Filton Abbey Wood Capacity	14	-	27	-	(13)	(3)
Anglia Traction power supply upgrade	5	-	(1)	-	6	2
Sussex Traction power supply upgrade	17	-	10	-	7	2
Reading, Ascot to Waterloo Train Lengthening	(1)	-	9	-	(10)	(3)
Other Enhancements	683	-	690	-	(7)	(7)
Total	361	-	677	-	(316)	(81)

Cumulative

	Variance to PR13	Variance due to ECAM adjustment	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(171)	-	156	-	(327)	(47)
East West Rail (committed scheme)	(31)	-	(1)	-	(30)	(7)
IEP Programme	68	-	54	-	14	4
Reading station area redevelopment	57	-	27	-	30	6
West coast power supply upgrade	(15)	-	21	-	(36)	(9)
Edinburgh Glasgow Improvements Programme (EGIP)	(22)	-	136	-	(158)	(40)
MML electrification	179	-	186	-	(7)	(2)
Walsall to Rugeley electrification	(13)	-	21	-	(34)	(9)
Redhill additional platform	(1)	-	14	-	(15)	(4)
Rolling programme of electrification (Scotland)	(93)	-	(86)	-	(7)	(2)
Kent power supply upgrade	2	-	(7)	-	9	2
Chiltern Main Line Train Lengthening	(1)	-	3	-	(4)	(1)
Aberdeen to Inverness journey time improvements and other enhancements	23	-	28	-	(5)	(1)
Capacity relief to the ECML	(5)	-	4	-	(9)	(2)
Seven day railway projects	6	-	3	-	3	1
MML linespeed improvements	(3)	-	(1)	-	(2)	-
Manchester Victoria	(11)	-	-	-	(11)	(11)
Crossrail	(334)	-	(62)	-	(272)	(77)
Northern Hub	(43)	-	110	-	(153)	(38)
Waterloo	(62)	-	(62)	-	-	-
Bromsgrove Elec - Midlands Improvements Programme (E-F)	6	-	12	-	(6)	(1)
Dr Days Jcn to Filton Abbey Wood Capacity	16	-	29	-	(13)	(3)
Anglia Traction power supply upgrade	17	-	11	-	6	2
Sussex Traction power supply upgrade	21	-	14	-	7	2
Reading, Ascot to Waterloo Train Lengthening	7	-	17	-	(10)	(3)
Other Enhancements	1,076	-	1,078	-	(2)	(6)
Total	673	-	1,705	-	(1,032)	(246)

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

In £m 2017-18 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 and so 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 their 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 incoming 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). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT/ Transport Scotland agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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 expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. 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 overspend. The size and complex nature of this programme means that there are a number of risks which need to be successfully managed to deliver the remainder of the programme within the latest forecast.

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

In £m 2017-18 prices unless stated

- (2) 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 control period to date. The reason for the increased costs 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. The programme costs remain broadly in line with the expected costs forecast at March 2017 and so the amount of financial underperformance recognised in 2017/18 is in line with expectation.
- (3) IEP programme – the total expected costs for the programme are lower than the Hendy baseline which has resulted in recognition of financial outperformance. Savings this year have arisen from: simplifying layout at Newcastle which has reduced the complexity and so cost of the works, substituting contractor delivery with underutilised local works delivery team for certain parts of the programme, lower tender prices than expected on electrification boosters and implementing alternative platform designs compared to the original plan.
- (4) 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. Successful close out of projects in this programme in the current year have enabled a further reduction in programme costs, augmenting the financial outperformance reported in earlier years of the control period.
- (5) West coast power supply upgrade – the anticipated final costs of the programme have increased in recent years resulting in financial underperformance being recognised in the current year and the control period to date. Expected programme costs increases arose from contractor disputes, extra scope delivered at Crewe/ Winsford substations, Earlier in the control period costs increased due in part of delays in a number of sectional commissionings due to uncertainty regarding requirements to cover specific isolation scenarios. A subsequent reprioritisation of feeder areas has resulted in an adverse impact on the programme, where the project has been unable to achieve the forecast available productive time due in part to constrained access and an increase in the volume of safety critical staff required to deliver the revised programme. De-vegetation work, trough clearance and remediation work also exceeding the initial estimated volumes as has the number of switches and circuit breakers required. Lastly, milestone changes on Northern programmes (notably North West Electrification Programme) have had a knock-on impact on this programme.
- (6) 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. In addition, planned access has been difficult to achieve and late running trains has reduced productivity of possessions as has poor weather which has impacted on-site delivery progress. Delays in obtaining compulsory purchase orders for required works at Glasgow Queen Street has also resulted in delays to the programme. Finally, issues at Edinburgh Waverly station, including discovery and subsequent remediation of asbestos and unforeseen ground conditions under the location of the new platform sites have caused delays and additional costs.

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

In £m 2017-18 prices unless stated

- (7) Walsall to Rugeley electrification – as a result of expected increases in the total programme costs financial underperformance has been recognised this control period. Programme delivery has been slower than planned due to contractor delivery and identification of a number of undocumented historic mine works found underneath the line after work began. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project. In addition, interfacing with existing overhead line electrification equipment at Walsall which was dates from the 1960s has proved to be more complex than first predicted.
- (8) Redhill additional platform – as a result of expected increases in the total programme costs emerging this year, financial underperformance has been recognised this year and in the control period to date. These extra costs have emerged from additional work required to meet timetable commitments and improvements made to the original project designs to minimise on-going costs once the assets are operational. Additional contractor costs have also added to the expected project expenditure as detailed quotes received were higher than the original estimates. Also, access has been lost to other projects which has prolonged project timescales.
- (9) Rolling programme of electrification (Scotland) – outperformance has been recognised this year which has reduced the control period to date underperformance. This benefit is mostly due to an agreement of new baseline targets between Transport Scotland, ORR and Network Rail. This change in targets reflected the over-simplistic baseline set as part of the ECAM process.
- (10) Kent traction power supply upgrade (CP4) - outperformance has been recognised in the year and the control period to date due to lower programme costs which have been identified this year. The project is largely complete and delivery risks (including management of contractor variation claims) have been successfully managed, resulting in decreased expected final costs. There have been further reductions to programme costs identified this year as part of successful close-out of final contractor claims and accounts.
- (11) Aberdeen to Inverness journey time improvements – expected total costs for the programme are higher than the baseline. There are a number of contributing factors including: extensive design solutions required in some locations to provide infrastructure that supports Transport Scotland's stated longer term strategy for the route, conflict between retaining freight capacity and increasing the frequency of commuter services has necessitated additional design solutions and scope, increased costs to comply with track and civils engineering rules, including design constraints with civil engineering works confined within the existing rail corridor, and increases in scope to improve asset quality.
- (12) Capacity relief to the ECML – costs are expected to be higher than the Hendy baseline. This includes: extra costs arising from new scope to provide step free access at Spalding station, extra re-railing delivered and negotiations with landlords for site access.

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

In £m 2017-18 prices unless stated

- (13) MML linespeed improvements – earlier in the control period some minor underperformance has been recognised as total programme costs were expected to be slightly higher than the Hendy review assumed. However, the programme delivered the remainder of the outputs this year with few additional costs, which reduced the overall financial underperformance recognised this control period.
- (14) 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. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance is included in the assessment of financial performance.
- (15) 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 and unforeseen energy interoperability rules compliance costs for the installation of West Outer Overhead Line Equipment. In addition, higher contractor costs have been caused by design updates and changes in access strategy (with primacy granted to Great Western Electrification programme). Efficiency challenges in the original plans have not been achieved putting further pressure on funding. The strategic importance for the overall railway network of completing this programme to agreed timescales places extra strain on efficient delivery. 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.
- (16) Northern Hub – underperformance has been recognised this year and for the control period to date following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is due to a number of factors including increased scope arising from worse than expected asset condition necessitating extra remediation costs and extra requirements as part of the Liverpool Lime Street remodelling. In addition, a new procurement model is being used for this programme which is proving more costly than expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues. In addition there have been a number of unforeseen challenges such as route wide mining, DNO power lines, complexity of signalling arrangements and OLE design which have influenced costs. Access constraints, timetable commitments and higher than expected supply chain costs have added extra cost pressures with the widely-publicised demise of Carillion adding delays to the programme whilst alternative arrangements were enacted.
- (17) Waterloo – tight control of contingencies, along with successful delivery of works during a blockade over the summer, has allowed the expected costs of the programme to reduce back in line with the Hendy baseline. The positive financial performance recognised this year negates the financial underperformance recognised earlier in the control period.
- (18) Bromsgrove electrification – the expected total programme costs increased this year. This was mostly due to difficulties in completing scheduled works during a long blockade over the festive period. Further possessions have had to be acquired in the forthcoming year which will incur extra costs on the project.

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

In £m 2017-18 prices unless stated

- (19) Dr Days Junction to Filton Abbey Wood capacity – expected total programme costs have increased this year resulting in the recognition of financial underperformance in the current year and control period to date. This has included late increases to contractor costs, slower on-site delivery and increased design complexity which has necessitated additional possessions to be incorporated into the plan, signalling data transmission issues and resources being redirected towards the more strategically important Crossrail programme.
- (20) Anglia Traction power supply upgrade – savings have been made to the total expected project costs this year following a review of feeder station locations. This has allowed closer placement, reducing the amount of cabling required and quickening the delivery of the works.
- (21) Sussex traction power supply upgrade – some savings have been achieved against the Hendy target on this programme. This has been achieved through efficient workbank planning, value engineering and tight control of programme contingencies.
- (22) Reading, Ascot to Waterloo Train Lengthening – the anticipated costs of this programme increased in the current year leading to financial underperformance being recognised. This primarily relates to increased costs around the Feltham area, including delays to the programme to coincide with local council enabling works and changes to the engineering standards and design to satisfy local council requirements.
- (23) 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. In addition, minor financial performance variances are captured through this heading.

Statement 6a: Analysis of income, Great Britain

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	4,480	4,535	(55)	18,042	17,976	66	4,550
Franchised track access income							
Fixed charges	519	503	16	1,789	1,712	77	407
Variable charges							
Variable usage charge	176	186	(10)	716	726	(10)	180
Traction electricity charges	305	411	(106)	1,193	1,396	(203)	294
Electrification asset usage charge	16	17	(1)	64	63	1	17
Capacity charge	433	442	(9)	1,755	1,746	9	439
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	208	211	(3)	888	886	2	233
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	1,138	1,267	(129)	4,616	4,817	(201)	1,163
Total franchised track access income	1,657	1,770	(113)	6,405	6,529	(124)	1,570
Total franchised track access and grant income	6,137	6,305	(168)	24,447	24,505	(58)	6,120
Other single till income							
Property income	376	378	(2)	1,411	1,376	35	361
Freight income	62	108	(46)	265	374	(109)	58
Open access income	37	30	7	129	117	12	33
Stations income	277	267	10	1,113	1,069	44	285
Facility and financing charges	140	158	(18)	320	497	(177)	70
Depots Income	90	67	23	314	269	45	82
Other income	13	15	(2)	62	60	2	17
Total other single till income	995	1,023	(28)	3,614	3,762	(148)	906
Total income	7,132	7,328	(196)	28,061	28,267	(206)	7,026

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

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower government grants (arising from lower inflation) and lower freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned from offering additional services to operators. Income for the control period to date is lower than the regulatory target due to lower traction electricity income and freight revenue (for the reasons noted above) as well as lower income received from Crossrail financing arrangements (offset by interest cost savings made by Network Rail). Income is higher than the previous year mainly due to additional income received under Crossrail financing agreements.

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

In £m 2017-18 prices unless stated

- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport and Transport Scotland are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only 10.96 per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table. Grant income is slightly lower than the previous year which is in line with the regulator's expectation in the PR13, with more income instead coming directly from operators through Fixed charges.

- (4) Fixed charges – fixed charge income was slightly lower than the determination this year. This is attributable 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 on Grant income. 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). This shortfall is partially offset by additional income Network Rail has earned from the provision of additional services to operators, notably in London North West route, continuing the trend of supplementary income received in earlier years of the control period. Fixed charges for the control period to date are higher than the regulator expected due to a combination of inflationary benefits as described above in the comment on Grant income and the provision of additional services in the London North West route. Fixed charges are higher than last year but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.

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

In £m 2017-18 prices unless stated

- (5) Variable usage charge – income from variable usage charges paid by train operators is lower than the determination expected. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2017/18 which necessitated extra disruptive possessions, including Northern Programmes, Crossrail, Great Western electrification and Waterloo developments. Differentials in the inflation rate used to uplift the determination target and the contractual prices charged, as described in more detail above, also contributes to the shortfall this year. The control period to date variance arises as a result of the lower income in the current year. Income is lower than the previous year due to a slight reduction in the level of services provided as illustrated through performance under the Volume incentive mechanism (shown in Statement 12). This was partly caused by the high level of disruptive enhancements being undertaken this year, including Northern Programmes, Crossrail, Great Western electrification and Waterloo developments. This was partly offset by some extra income generated in Sussex and Kent this year following the disturbance that industrial action caused to passengers in 2016/17.
- (6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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 favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was higher than the previous year reflecting higher market prices but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a). As market prices have been lower than the regulator assumed in each of the last four years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (7) Capacity charge – in the current year this is lower than the determination expected but remains favourable for the control period to date. About half of the adverse position in the year is due to differentials in the inflation rate used to uplift the determination target and the contractual prices charged, as described in more detail above. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2017/18 which necessitated extra disruptive possessions, including Northern Programmes, Crossrail, Great Western electrification and Waterloo developments. There has been a slight decrease in the capacity charge earned this year, mainly due to these large disruptive programmes, as well as the snow that Storm Emma brought at the end of February which lead to widespread cancellations. In addition, slightly fewer trains have been than the previous year, notably in Western and Wessex routes, which has been offset by extra services in Sussex where passenger services were devastated by industrial action in 2016/17. The control period to date position is favourable to the regulator's target. This is due to a combination of running more passenger services earlier in the control period and differences in inflation rates as described above.
- (8) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. The noticeable reduction compared to the previous year is a function of the regulator's assumption for CP5, which assumed reductions in Network Rail's schedule 4 costs (which this income is designed to cover) over the control period due to year-on-year reductions in renewals investment and possession planning efficiencies.

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

In £m 2017-18 prices unless stated

- (9) Property income – this is broadly in line with the determination target this year with additional property sales more compensating for lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. In the control period to date, around £50m less than the Hendy baseline, which was itself lower than the regulator's determination, (refer to Statement 3) has been invested in income generating property schemes. Property sales income is higher than the regulator's determination this year. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway. Income in the control period to date is ahead of the regulatory target, which includes the benefit of Network Rail disposing of its interests in the Grand Central shopping complex in Birmingham earlier in the control period as well as the extra sales made in the current year.
- (10) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing by around 75 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. Overall, the tonnage of materials moved by freight has decreased by around 25 per cent since the last year of CP4. The regulator's determination expected significant increases in wood pellet haulage to support the Drax power station could be achieved in CP6. Whilst this area has improved the expected level of growth has proven over optimistic. 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) but lower income. The structural changes facing the freight market over the past four years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the lower control period to date. There has been an increase in freight income compared to the previous year. The improvement is mainly due to increases in construction and domestic retail traffic which has helped alleviate continued decreases in coal traffic.
- (11) Open access income – this continues to outperform the regulatory assumption as Network Rail provides additional services to operators in response to customer demand. The underlying outperformance in the control period to date is higher than it may first appear as it absorbs lower than expected income from traction electricity, owing to lower wholesale electricity prices. 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).

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

In £m 2017-18 prices unless stated

- (12) Stations income – revenue earned this year is higher than the regulator expected. This is partly due to a transfer of Reading and Bristol stations from franchised to managed earlier in the control period, meaning Network Rail assumes responsibility for running these stations directly rather than the franchise operator which generates more income, but also results in additional operating costs (as noted in Statement 7a). In addition, extra income has been earned following redevelopment of Birmingham New Street station, Euston and London Bridge. This is partly offset by reductions in income in Anglia as a result of stations associated with the c2c franchise passing to the operator. This reduces Network Rail's income but also running costs. In the control period to date, station income has been higher than the regulator anticipated due to the aforementioned transfer of Bristol and Reading stations and the impact of managed station redevelopment partly offset by the transfer of stations to the franchisee in the Anglia route. Income is lower than the prior year which benefitted from non-recurring items, including the favourable settlement of commercial disputes in Sussex and Kent.
- (13) Facility and financing charges – income in this category is 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. In addition, at the time of the determination 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 meaning no income has been generated in the current year of the control period to date. 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). The lower income in the control period to date is a combination of the factors noted above along with lower Crossrail finance income. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties 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. As noted in the previous year's Regulatory financial statements, in 2016/17 Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. This year, further amounts were repaid resulting in additional income earned in this category compared to the prior year.
- (14) Depots income revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and LNE as well as benefits following the development of Reading depot. Income has improved since last year following extra services offered, notably in Western, to facilitate the new Intercity Express Programme, and Sussex.

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

In £m 2017-18 prices unless stated

- (15) Other income – income – this category includes 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. Whilst the values are broadly in line with the regulator's determination there is a positive underlying performance. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed operations. The quinquennial regulatory control period for High Speed does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed set out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Despite this Network Rail have been able to enact efficiency strategies to outperform the targets in the High Speed determination. Income is lower than the previous year as the High Speed efficiency targets become more challenging.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Property income							
Property rental	306	373	(67)	1,170	1,353	(183)	304
Property sales	70	40	30	241	159	82	57
Adjustment for commercial opex	-	(35)	35	-	(136)	136	-
Total property income	376	378	(2)	1,411	1,376	35	361
Freight income							
Freight variable usage charge	48	73	(25)	207	267	(60)	46
Freight traction electricity charges	6	13	(7)	23	41	(18)	5
Freight electrification asset usage charge	-	1	(1)	-	3	(3)	-
Freight capacity charge	4	8	(4)	14	24	(10)	3
Freight only line charge	1	5	(4)	8	18	(10)	1
Freight specific charge	-	5	(5)	-	7	(7)	-
Freight other income	2	-	2	7	-	7	2
Freight coal spillage charge	1	3	(2)	6	14	(8)	1
Total freight income	62	108	(46)	265	374	(109)	58
Open access income							
Variable usage charge income	7	2	5	24	9	15	7
Open access capacity charge	2	2	-	7	6	1	2
Open access traction electricity charges	8	6	2	18	22	(4)	4
Fixed contractual contribution	20	20	-	80	80	-	20
Open access other income	-	-	-	-	-	-	-
Total open access income	37	30	7	129	117	12	33
Stations income							
Managed stations income							
Long term charge	36	36	-	146	143	3	36
Qualifying expenditure	66	47	19	254	190	64	68
Total managed stations income	102	83	19	400	333	67	104
Franchised stations income							
Long term charge	127	134	(7)	523	536	(13)	133
Stations lease income	48	50	(2)	190	200	(10)	48
Total franchised stations income	175	184	(9)	713	736	(23)	181
Total stations income	277	267	10	1,113	1,069	44	285
Facility and financing charges							
Facility charges	57	65	(8)	227	241	(14)	59
Crossrail finance charge	83	85	(2)	93	243	(150)	11
Welsh Valleys finance charge	-	8	(8)	-	13	(13)	-
Total facility and financing charges	140	158	(18)	320	497	(177)	70
Depots income	90	67	23	314	269	45	82
Other	13	15	(2)	62	60	2	17
Total other single till income	995	1,023	(28)	3,614	3,762	(148)	906

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

In £m 2017-18 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) Overall, single till income is lower than the regulator expected this year mainly as a result of lower freight income (as a result of structural declines in the coal transportation market) partly offset by extra income earned from offering additional services to operators. Income for the control period to date is lower than the regulatory assumption mostly due to lower Crossrail finance income (which is offset by interest cost savings), lower freight income (due to the aforementioned structural decline in key markets) partly alleviated by extra station and depot services offered to operators. Income is higher than the previous year due to additional income earned from Crossrail finance charges (which is largely offset by higher financing costs).
- (2) 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 below the regulatory expectation for both current year and the control period to date with the gap to the determination widening each year. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. In the control period to date, around £50m less than the Hendy baseline, which was itself lower than the regulator's determination, (refer to Statement 3) has been invested in income generating property schemes.
- (3) Property sales – income is higher than the regulator's determination this year. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway. Income in the control period to date is ahead of the regulatory target, which includes the benefit of Network Rail disposing of its interests in the Grand Central shopping complex in Birmingham earlier in the control period as well as the extra sales made in the current year.

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

In £m 2017-18 prices unless stated

- (4) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing by around 75 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. Overall, the tonnage of materials moved by freight has decreased by around 25 per cent since the last year of CP4. The regulator's determination expected significant increases in wood pellet haulage to support the Drax power station could be achieved in CP6. Whilst this area has improved the expected level of growth has proven over optimistic. 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) but lower income. The structural changes facing the freight market over the past four years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the lower control period to date. There has been an increase in freight income compared to the previous year. The improvement is mainly due to increases in construction and domestic retail traffic which has helped alleviate continued decreases in coal traffic.
- (5) Open access income – this continues to outperform the regulatory assumption as Network Rail provides additional services to operators in response to customer demand. The underlying outperformance in the control period to date is higher than it may first appear as it absorbs lower than expected income from traction electricity, owing to lower wholesale electricity prices. 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).
- (6) Managed stations – Qualifying expenditure – income is higher than the PR13 assumption. The largest contribution to this favourable position comes from 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). In addition, there is also some extra income as a result of the costs incurred revamping Birmingham New Street, London Euston and London Bridge, a portion of which are passed to the operators under the franchise contracts. These factors are also largely responsible for the favourable control period to date position compared to the regulator's expectations.
- (7) Franchised stations – long term charge – income in the year was lower than the regulatory target. 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 reduced income. 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 same factors have contributed to the lower income for the control period to date compared to the regulator's assumption. As noted in the previous year's Regulatory financial statements extra income was received in 2016/17 due to successful resolution of customer disputes in Sussex. Removing this non-recurring benefit, income is broadly in line with the previous year.

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

In £m 2017-18 prices unless stated

- (8) Franchised stations – Stations Lease Income – income is lower than the regulatory target for both the current year and the control period to date mostly as a result of the transfer of Bristol and Reading to Managed stations and the transfer of Anglia stations to the franchisee as noted above.
- (9) 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.
- (10) Crossrail finance charge - the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties 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. As noted in the previous year's Regulatory financial statements, in 2016/17 Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. This year, further amounts were repaid resulting in additional income earned in this category this year. The large variance in the control period to date is mainly due to lower income received from Crossrail Limited for financing charges earlier in the control period although there is a corresponding saving in interest costs incurred as reported in Statement 4.
- (11) Welsh Valleys finance charge – at the time of the determination 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 meaning no income has been generated in the current year of the control period to date. 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).
- (12) Depots income – revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and LNE as well as benefits following the development of Reading depot. Income has improved since last year following extra services offered, notably in Western, to facilitate the new Intercity Express Programme, and Sussex.

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

In £m 2017-18 prices unless stated

- (13) Other income – this category includes 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. Whilst the values are broadly in line with the regulator's determination there is a positive underlying performance. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed operations. The quinquennial regulatory control period for High Speed does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed set out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Despite this Network Rail have been able to enact efficiency strategies to outperform the targets in the High Speed determination. Income is lower than the previous year as the High Speed efficiency targets become more challenging.

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Arriva Trains Wales					
Variable Usage Charges	3.3	3.5	3.4	3.4	13.6
Traction Electricity Charges	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	4.2	4.4	4.3	4.2	17.1
Fixed Charges	19.5	15.0	15.9	18.6	69.0
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	10.6	10.8	10.7	10.5	42.6
Station QX	0.4	0.4	0.5	0.5	1.8
Other Charges	1.7	1.5	1.7	1.7	6.6
Total income	39.7	35.6	36.5	38.9	150.7

	2014-15	2015-16	2016-17	2017-18	CP5 Total
C2C					
Variable Usage Charges	1.8	2.0	2.1	2.2	8.1
Traction Electricity Charges	6.8	7.8	8.4	8.6	31.6
Electrification Asset Usage Charges	0.4	0.5	0.5	0.5	1.9
Capacity Charges	2.5	2.7	2.7	2.7	10.6
Fixed Charges	5.1	3.9	4.3	4.9	18.2
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	2.8	-	-	-	2.8
Station QX	-	-	0.1	0.1	0.2
Other Charges	1.2	1.4	1.1	1.4	5.1
Total income	20.6	18.3	19.2	20.4	78.5

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Chiltern					
Variable Usage Charges	2.2	2.4	2.5	2.6	9.7
Traction Electricity Charges	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	1.7	1.8	2.7	2.5	8.7
Fixed Charges	5.0	4.1	5.0	5.7	19.8
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	3.9	4.1	4.1	4.0	16.1
Station QX	-	-	-	-	-
Other Charges	11.9	14.5	18.1	18.8	63.3
Total income	24.7	26.9	32.4	33.6	117.6

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Cross Country					
Variable Usage Charges	11.0	11.2	11.0	10.8	44.0
Traction Electricity Charges	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	25.2	25.9	25.5	24.7	101.3
Fixed Charges	23.5	17.9	17.1	22.4	80.9
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	1.8	1.9	1.8	1.8	7.3
Station QX	3.4	3.9	4.7	4.7	16.7
Other Charges	-	-	-	-	-
Total income	64.9	60.8	60.1	64.4	250.2

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
East Coast Main Line Rail					
Variable Usage Charges	20.4	-	-	-	20.4
Traction Electricity Charges	19.8	-	-	-	19.8
Electrification Asset Usage Charges	1.7	-	-	-	1.7
Capacity Charges	37.5	-	-	-	37.5
Fixed Charges	26.3	-	-	-	26.3
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	8.1	-	-	-	8.1
Station QX	3.2	-	-	-	3.2
Other Charges	2.7	-	-	-	2.7
Total income	119.7	-	-	-	119.7

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Virgin East Coast					
Variable Usage Charges	1.9	21.2	20.3	20.0	63.4
Traction Electricity Charges	1.8	21.3	21.3	21.1	65.5
Electrification Asset Usage Charges	0.1	1.8	1.9	1.8	5.6
Capacity Charges	3.6	41.7	41.7	41.7	128.7
Fixed Charges	2.5	22.1	23.3	27.2	75.1
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	0.7	8.0	8.3	7.4	24.4
Station QX	0.3	3.2	3.2	3.3	10.0
Other Charges	0.2	3.0	3.0	3.0	9.2
Total income	11.1	122.3	123.0	125.5	381.9

	2014-15	2015-16	2016-17	2017-18	CP5 Total
East Midlands					
Variable Usage Charges	8.0	8.1	7.9	7.8	31.8
Traction Electricity Charges	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	18.2	18.7	18.4	18.0	73.3
Fixed Charges	16.0	12.1	12.7	15.0	55.8
Station Facility Charge	1.5	4.5	11.8	8.2	26.0
Station Long Term Charges	5.8	7.1	5.7	5.6	24.2
Station QX	0.3	0.3	0.3	0.3	1.2
Other Charges	7.1	7.0	7.1	7.0	28.2
Total income	56.9	57.8	63.9	61.9	240.5

	2014-15	2015-16	2016-17	2017-18	CP5 Total
First Capital Connect					
Variable Usage Charges	3.3	-	-	-	3.3
Traction Electricity Charges	10.0	-	-	-	10.0
Electrification Asset Usage Charges	0.7	-	-	-	0.7
Capacity Charges	18.1	-	-	-	18.1
Fixed Charges	10.0	-	-	-	10.0
Station Facility Charge	0.4	-	-	-	0.4
Station Long Term Charges	4.9	-	-	-	4.9
Station QX	2.1	-	-	-	2.1
Other Charges	1.0	-	-	-	1.0
Total income	50.5	-	-	-	50.5

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Govia Thameslink Railway					
Variable Usage Charges	4.6	12.9	16.7	17.5	51.7
Traction Electricity Charges	18.2	52.4	63.3	62.9	196.8
Electrification Asset Usage Charges	0.9	2.3	2.8	3.0	9.0
Capacity Charges	25.5	70.5	84.5	87.1	267.6
Fixed Charges	11.9	27.1	33.1	39.2	111.3
Station Facility Charge	0.5	3.0	4.7	4.4	12.6
Station Long Term Charges	5.6	24.3	37.1	33.3	100.3
Station QX	2.0	7.9	9.5	9.0	28.4
Other Charges	3.1	3.3	9.0	16.3	31.7
Total income	72.3	203.7	260.7	272.7	809.4

	2014-15	2015-16	2016-17	2017-18	CP5 Total
First Great Western					
Variable Usage Charges	20.0	20.3	20.4	20.0	80.7
Traction Electricity Charges	-	-	0.2	3.2	3.4
Electrification Asset Usage Charges	-	-	-	0.2	0.2
Capacity Charges	49.8	51.7	51.1	50.0	202.6
Fixed Charges	33.3	24.7	25.2	31.4	114.6
Station Facility Charge	2.0	2.1	2.1	2.0	8.2
Station Long Term Charges	17.6	17.7	17.5	17.0	69.8
Station QX	8.3	8.3	8.1	7.9	32.6
Other Charges	27.2	23.3	23.3	25.9	99.7
Total income	158.2	148.1	147.9	157.6	611.8

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Greater Anglia					
Variable Usage Charges	11.2	10.4	5.6	-	27.2
Traction Electricity Charges	33.3	26.6	14.2	-	74.1
Electrification Asset Usage Charges	2.3	2.0	1.1	-	5.4
Capacity Charges	18.6	15.1	7.9	-	41.6
Fixed Charges	28.0	18.5	10.2	-	56.7
Station Facility Charge	1.1	1.4	0.7	-	3.2
Station Long Term Charges	3.8	2.5	1.3	-	7.6
Station QX	3.0	2.1	1.1	-	6.2
Other Charges	3.0	4.6	2.6	-	10.2
Total income	104.3	83.2	44.7	-	232.2

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Abellio East Anglia					
Variable Usage Charges	-	-	4.6	10.1	14.7
Traction Electricity Charges	-	-	13.6	27.3	40.9
Electrification Asset Usage Charges	-	-	0.9	2.0	2.9
Capacity Charges	-	-	6.6	13.8	20.4
Fixed Charges	-	-	8.8	22.2	31.0
Station Facility Charge	-	-	0.6	1.3	1.9
Station Long Term Charges	-	-	0.9	2.1	3.0
Station QX	-	-	0.9	2.0	2.9
Other Charges	-	-	2.3	5.3	7.6
Total income	-	-	39.2	86.1	125.3

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
London Midland					
Variable Usage Charges	6.3	6.9	6.9	4.7	24.8
Traction Electricity Charges	14.7	16.6	16.0	9.2	56.5
Electrification Asset Usage Charges	0.9	1.0	1.0	0.7	3.6
Capacity Charges	36.3	36.4	36.5	24.9	134.1
Fixed Charges	19.4	14.8	14.8	10.9	59.9
Station Facility Charge	0.3	0.3	0.2	0.2	1.0
Station Long Term Charges	11.2	11.5	11.4	7.8	41.9
Station QX	5.0	6.2	7.1	4.8	23.1
Other Charges	3.5	3.5	3.4	2.4	12.8
Total income	97.6	97.2	97.3	65.6	357.7

	2014-15	2015-16	2016-17	2017-18	CP5 Total
West Midlands Trains					
Variable Usage Charges	-	-	-	2.0	2.0
Traction Electricity Charges	-	-	-	6.7	6.7
Electrification Asset Usage Charges	-	-	-	0.3	0.3
Capacity Charges	-	-	-	10.7	10.7
Fixed Charges	-	-	-	4.9	4.9
Station Facility Charge	-	-	-	0.1	0.1
Station Long Term Charges	-	-	-	3.9	3.9
Station QX	-	-	-	1.8	1.8
Other Charges	-	-	-	1.4	1.4
Total income	-	-	-	31.8	31.8

	2014-15	2015-16	2016-17	2017-18	CP5 Total
London Overground					
Variable Usage Charges	0.8	1.2	0.9	-	2.9
Traction Electricity Charges	4.3	7.4	4.9	-	16.6
Electrification Asset Usage Charges	0.1	0.3	0.2	-	0.6
Capacity Charges	2.4	3.1	2.0	-	7.5
Fixed Charges	3.9	4.1	2.7	-	10.7
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	3.7	4.5	2.8	-	11.0
Station QX	0.4	1.0	0.6	-	2.0
Other Charges	0.6	0.6	0.5	-	1.7
Total income	16.2	22.2	14.6	-	53.0

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Arriva Rail London					
Variable Usage Charges	-	-	0.5	1.4	1.9
Traction Electricity Charges	-	-	3.4	7.4	10.8
Electrification Asset Usage Charges	-	-	0.1	0.3	0.4
Capacity Charges	-	-	1.1	3.1	4.2
Fixed Charges	-	-	1.7	5.2	6.9
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	-	-	1.8	4.4	6.2
Station QX	-	-	0.4	1.0	1.4
Other Charges	-	-	0.3	0.9	1.2
Total income	-	-	9.3	23.7	33.0

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Merseyrail					
Variable Usage Charges	0.8	0.8	0.8	0.8	3.2
Traction Electricity Charges	5.8	5.9	5.7	5.7	23.1
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.4
Capacity Charges	0.5	0.5	0.5	0.5	2.0
Fixed Charges	3.5	2.6	2.7	3.1	11.9
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	8.2	8.2	8.1	7.9	32.4
Station QX	-	-	-	-	-
Other Charges	0.6	0.8	0.7	0.4	2.5
Total income	19.5	18.9	18.6	18.5	75.5

	2014-15	2015-16	2016-17	2017-18	CP5 Total
MTR Crossrail					
Variable Usage Charges	-	0.6	0.7	0.7	2.0
Traction Electricity Charges	-	3.6	4.3	4.2	12.1
Electrification Asset Usage Charges	-	0.2	0.2	0.3	0.7
Capacity Charges	-	3.0	3.6	3.6	10.2
Fixed Charges	-	1.7	2.1	2.4	6.2
Station Facility Charge	-	-	-	0.1	0.1
Station Long Term Charges	-	0.8	0.9	1.2	2.9
Station QX	-	0.6	0.7	0.8	2.1
Other Charges	-	-	-	-	-
Total income	-	10.5	12.5	13.3	36.3

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Northern					
Variable Usage Charges	4.6	5.1	5.6	5.2	20.5
Traction Electricity Charges	4.7	6.5	7.6	6.6	25.4
Electrification Asset Usage Charges	0.2	0.3	0.4	0.4	1.3
Capacity Charges	8.7	8.8	9.2	8.6	35.3
Fixed Charges	26.5	20.4	21.0	25.8	93.7
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	17.1	17.3	17.8	17.5	69.7
Station QX	3.2	3.2	3.5	3.5	13.4
Other Charges	5.5	5.4	6.8	6.8	24.5
Total income	70.5	67.0	71.9	74.4	283.8

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Scotrail					
Variable Usage Charges	9.0	8.2	8.9	8.2	34.3
Traction Electricity Charges	12.7	13.6	14.6	13.5	54.4
Electrification Asset Usage Charges	0.9	0.8	1.0	0.9	3.6
Capacity Charges	10.5	10.4	10.9	10.1	41.9
Fixed Charges	99.1	91.8	92.7	149.7	433.3
Station Facility Charge	0.6	0.8	-	0.8	2.2
Station Long Term Charges	17.1	15.2	1.7	16.1	50.1
Station QX	3.8	0.8	3.6	3.6	11.8
Other Charges	6.8	6.5	0.3	7.0	20.6
Total income	160.5	148.1	133.7	209.9	652.2

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Serco Sleeper					
Variable Usage Charges	-	1.4	1.4	1.2	4.0
Traction Electricity Charges	-	0.1	1.5	1.1	2.7
Electrification Asset Usage Charges	-	-	0.2	0.1	0.3
Capacity Charges	-	0.2	0.7	0.7	1.6
Fixed Charges	-	1.0	4.4	7.0	12.4
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	-	-	0.1	-	0.1
Station QX	-	-	0.2	0.2	0.4
Other Charges	-	-	-	-	-
Total income	-	2.7	8.5	10.3	21.5

	2014-15	2015-16	2016-17	2017-18	CP5 Total
South Eastern					
Variable Usage Charges	8.9	10.2	9.6	9.6	38.3
Traction Electricity Charges	34.3	36.6	39.9	40.9	151.7
Electrification Asset Usage Charges	1.0	1.1	1.1	1.2	4.4
Capacity Charges	17.1	17.9	16.4	16.0	67.4
Fixed Charges	24.6	18.8	19.9	23.7	87.0
Station Facility Charge	0.1	0.1	0.1	0.1	0.4
Station Long Term Charges	25.2	24.6	24.5	24.1	98.4
Station QX	6.0	5.8	8.9	9.0	29.7
Other Charges	7.9	7.6	8.4	8.1	32.0
Total income	125.1	122.7	128.8	132.7	509.3

	2014-15	2015-16	2016-17	2017-18	CP5 Total
South West Trains					
Variable Usage Charges	12.7	12.7	13.0	4.8	43.2
Traction Electricity Charges	39.0	41.4	40.9	10.5	131.8
Electrification Asset Usage Charges	1.1	1.1	1.2	0.5	3.9
Capacity Charges	27.1	27.4	27.1	9.9	91.5
Fixed Charges	26.1	19.9	21.1	9.2	76.3
Station Facility Charge	11.0	7.7	10.8	3.8	33.3
Station Long Term Charges	29.4	30.9	30.3	11.3	101.9
Station QX	4.5	5.2	4.9	1.6	16.2
Other Charges	8.1	10.9	9.6	3.4	32.0
Total income	159.0	157.2	158.9	55.0	530.1

	2014-15	2015-16	2016-17	2017-18	CP5 Total
South Western Railway					
Variable Usage Charges	-	-	-	7.9	7.9
Traction Electricity Charges	-	-	-	28.4	28.4
Electrification Asset Usage Charges	-	-	-	0.8	0.8
Capacity Charges	-	-	-	15.9	15.9
Fixed Charges	-	-	-	15.5	15.5
Station Facility Charge	-	-	-	6.4	6.4
Station Long Term Charges	-	-	-	18.9	18.9
Station QX	-	-	-	2.6	2.6
Other Charges	-	-	-	7.1	7.1
Total income	-	-	-	103.5	103.5

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Southern					
Variable Usage Charges	9.2	3.8	-	-	13.0
Traction Electricity Charges	29.8	12.4	-	-	42.2
Electrification Asset Usage Charges	1.0	0.4	-	-	1.4
Capacity Charges	44.0	18.1	-	-	62.1
Fixed Charges	19.2	4.6	-	-	23.8
Station Facility Charge	2.3	0.9	-	-	3.2
Station Long Term Charges	22.8	7.2	-	-	30.0
Station QX	3.3	1.1	-	-	4.4
Other Charges	1.7	0.5	-	-	2.2
Total income	133.3	49.0	-	-	182.3

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Transpennine					
Variable Usage Charges	5.0	5.1	4.7	3.7	18.5
Traction Electricity Charges	2.3	2.4	2.5	2.5	9.7
Electrification Asset Usage Charges	0.2	0.2	0.2	0.2	0.8
Capacity Charges	11.5	11.7	11.3	11.4	45.9
Fixed Charges	11.6	9.7	10.8	12.7	44.8
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	3.9	3.9	3.3	3.3	14.4
Station QX	1.6	1.9	1.7	1.6	6.8
Other Charges	0.1	0.1	0.1	0.1	0.4
Total Turnover	36.2	35.0	34.6	35.5	141.3

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Virgin West Coast					
Variable Usage Charges	33.6	32.5	32.7	31.3	130.1
Traction Electricity Charges	40.2	43.7	48.7	39.0	171.6
Electrification Asset Usage Charges	3.3	3.3	3.4	3.3	13.3
Capacity Charges	75.0	75.4	75.0	72.2	297.6
Fixed Charges	44.8	34.1	35.9	41.7	156.5
Station Facility Charge	9.1	9.2	9.1	9.0	36.4
Station Long Term Charges	11.8	11.9	11.8	11.7	47.2
Station QX	6.3	6.5	6.9	6.8	26.5
Other Charges	1.5	1.5	1.6	0.1	4.7
Total Turnover	225.6	218.1	225.1	215.1	883.9

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Consolidated Non-Franchised Train Operators					
Variable Usage Charges	2.7	4.8	5.8	5.6	18.9
Traction Electricity Charges	3.3	1.4	2.7	2.9	10.3
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	1.4	1.8	1.9	1.8	6.9
Fixed Charges	20.0	19.9	19.5	19.5	78.9
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	1.6	1.2	1.5	1.4	5.7
Station QX	0.7	(0.2)	0.2	0.3	1.0
Other Charges	0.2	0.2	0.2	0.3	0.9
Total Turnover	29.9	29.1	31.8	31.8	122.6

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Consolidated Charter Train Operators					
Variable Usage Charges	0.9	0.6	0.6	0.6	2.7
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	0.6	0.6	2.7

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Consolidated Freight Operating Companies					
Variable Usage Charges	61.3	51.6	46.7	49.1	208.7
Traction Electricity Charges	6.9	5.4	5.2	6.3	23.8
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.4
Capacity Charges	3.6	3.9	3.7	3.6	14.8
Fixed Charges	-	-	-	-	-
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	-	-	-	-	-
Station QX	-	-	-	-	-
Other Charges	9.2	4.1	3.7	4.1	21.1
Total Turnover	81.1	65.1	59.4	63.2	268.8

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

In £m 2017-18 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. In addition, amounts in this statement for Other charges and Station long term charges for Train operating companies include facility charges which are included in Statement 6a and 6b within Facility charges.
- (2) The amounts reported in the tables do not include any payments made to/ received from operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) Fixed Charges – there has been an increase in Fixed charges across most operators compared to the previous year. This is part of the overall switch of higher Fixed charges offsetting reductions in Grant income received from governments as set out in Statement 6a. This is most apparent for Scotrail due to changes in the way the Scottish government have chosen to fund the railway in Scotland.
- (5) Changes in Freight income and Open access operator income are discussed in more detail in Statement 6a.
- (6) In 2014/15 Govia Thameslink Railway replaced First Capital Connect as the main operator of the Thameslink service. In addition, in 2015/16 the results of the Southern franchise were consolidated into Govia Thameslink's results. Therefore, there is no income for First Capital Connect after 2014/15 whilst Southern's income also decreases significantly from 2015/16. Conversely, income for Govia Thameslink Railway increases over the control period as the revenue is recognised in this category. Compared to the previous year, Govia has some additional income in Other charges relating to new depot facilities. This has been partly offset by reduced Station Long Term Charges. The 2016/17 figures benefitted from settlement of previous claims and so income was artificially high in that year.
- (7) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, no income is reported for East Coast Main Line Rail after 2014/15, whilst the income for Virgin East Coast increases significantly after 2014/15.
- (8) In 2015/16 MTR Crossrail started to operate services so was shown in Statement 6c in the Regulatory financial statements for the first time that 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 in 2015/16 compared to 2014/15.
- (9) Abellio East Anglia replaced Greater Anglia as the franchise operator during 2016/17 which accounts for the movements between 2015/16 and 2016/17 for these two operators.
- (10) In 2015/16 Serco Sleeper started to operate services as a new franchise and so were shown in Statement 6c in the Regulatory financial statements for the first time that 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.

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

In £m 2017-18 prices unless stated

- (11) In 2015/16 a number of stations were transferred to c2c on a long-term lease. Therefore, the station income paid by this operator to Network Rail is lower in 2015/16 and 2016/17 compared to 2014/15.
- (12) In 2016/17, Arriva Rail London assumed responsibility for the London overground concession previously run by London Overground Rail Operations. Therefore, there is a significant decrease in the revenue reported from London Overground in 2016/17 compared to 2015/16 with a corresponding increase in Arriva Rail London. A full year of income is included for Arriva Rail London in 2017/18, which accounts for the majority of the increase compared to the prior year.
- (13) In 2016/17 Station facility charges paid by East Midlands Trains increased as a result of extra income recognised for additional services offered at East Midlands Parkway station. This included settlement of charges relating to services rendered in 2015/16. Consequently, income recognised in the current year was lower than 2016/17.
- (14) In the current year, West Midlands Trains replaced London Midland as the franchise operator on the London North West route and so is included in the Regulatory Financial Statements for the first time this year. This also results in a decrease in London Midland income compared to the previous year.
- (15) In the current year, South Western Railway replaced South West Trains as the principle operator in the Wessex route. Consequently, the income earned by the latter is shown for the first time this year, whilst the former has a noticeable year-on-year decrease in their turnover in the above table.
- (16) Other charges in First Great Western increased in the year as a result of new depot facilities provided to facilities the Intercity Express Programme.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	278	220	(58)	1,102	957	(145)	280
Signalling shift managers	17	14	(3)	72	58	(14)	14
Local operations managers	21	16	(5)	84	64	(20)	20
Controllers	42	33	(9)	154	132	(22)	38
Electrical control room operators	13	12	(1)	53	46	(7)	14
Total signaller expenditure	371	295	(76)	1,465	1,257	(208)	366
Non-signaller expenditure							
Mobile operations managers	40	30	(10)	152	128	(24)	38
Managed stations	61	38	(23)	243	163	(80)	65
Performance	13	14	1	68	58	(10)	17
Customer relationship executives	8	7	(1)	26	30	4	5
Route enhancement managers	-	-	-	5	-	(5)	-
Weather	14	18	4	54	78	24	12
Other	39	14	(25)	143	58	(85)	41
Operations delivery	5	-	(5)	16	-	(16)	4
HQ - Operations services	1	-	(1)	4	-	(4)	1
HQ - Performance and planning	2	-	(2)	21	-	(21)	14
HQ - Stations and customer services	2	-	(2)	4	-	(4)	1
HQ - Other	89	29	(60)	221	121	(100)	43
Other operating income	(49)	(20)	29	(156)	(85)	71	(32)
Total non-signaller expenditure	225	130	(95)	801	551	(250)	209
Total network operations expenditure	596	425	(171)	2,266	1,808	(458)	575
Support costs							
Core support costs							
Human resources	17	58	41	117	250	133	18
Information management	61	61	-	262	260	(2)	63
Government and corporate affairs	9	19	10	48	78	30	11
Group strategy	8	12	4	28	48	20	3
Finance	23	27	4	87	117	30	24
Business services	16	14	(2)	71	59	(12)	26
Accommodation	77	73	(4)	332	307	(25)	81
Utilities	50	44	(6)	191	182	(9)	53
Insurance	37	48	11	141	203	62	(9)
Legal and inquiry	5	6	1	29	26	(3)	8
Safety and sustainable development	19	8	(11)	89	36	(53)	20
Strategic sourcing	7	9	2	30	40	10	7
Business change	4	3	(1)	8	15	7	-
Other corporate functions	44	3	(41)	161	14	(147)	38
Core support costs	377	385	8	1,594	1,635	41	343
Other support costs							
Asset management services	29	46	17	141	184	43	33
Network rail telecoms	33	33	-	164	158	(6)	31
National delivery service	-	(1)	(1)	-	11	11	-
Infrastructure Projects	(24)	-	24	(101)	-	101	(27)
Commercial property	5	(5)	(10)	(15)	(16)	(1)	(5)
Group costs	(24)	(5)	19	(171)	(26)	145	(25)
Total other support costs	19	68	49	18	311	293	7
Total support costs	396	453	57	1,612	1,946	334	350
Traction electricity, industry costs and rates							
Traction electricity	313	442	129	1,264	1,503	239	310
Business rates	217	189	(28)	722	689	(33)	169
British transport police costs	88	71	(17)	358	301	(57)	93
RSSB costs	10	9	(1)	40	37	(3)	10
ORR licence fee and railway safety levy	17	17	-	69	72	3	16
Reporters fees	1	3	2	5	13	8	1
Other industry costs	4	2	(2)	16	9	(7)	6
Total traction electricity, industry costs and rates	650	733	83	2,474	2,624	150	605
Total network operations expenditure, support costs, traction electricity, industry costs and rates	1,642	1,611	(31)	6,352	6,378	26	1,530

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are slightly higher than the determination assumed this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised, partly offset by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a) and lower costs in central functions.
- (3) 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.

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

In £m 2017-18 prices unless stated

- (4) Network operations costs in 2017/18 are approximately 30 per cent higher than the regulator assumed. 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 cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are slightly higher than the previous year with the largest contribution arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.

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

In £m 2017-18 prices unless stated

- (6) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (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 Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are in line with the previous year as many of the transfers of responsibilities were in place for 2016/17.
- (8) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors. Costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.
- (9) 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 this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16, part of the Group strategy team and Business Services in the previous year.
- (10) Business services – costs in this category are broadly in line with the determination assumption. The slightly higher value is due to some of the responsibilities for professional training and development (including apprentices) transferring from Human resources, which contributes to the saving in that category. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and a portion of these costs are now included within Business services who manage the scheme. This transfer of activity also accounts for most of the variance to the regulator's assumption in the control period to date. Costs in the year are lower than the previous year as many of the training and apprentice costs are being recharged elsewhere in the organisation so that route and department costs are more reflective of the resources they consume, with increases across most functions but especially in the routes (which is included in Other corporate functions).

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

In £m 2017-18 prices unless stated

- (11) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be over 15 per cent lower than the CP4 exit position by 2017/18, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the regulatory target. Costs are slightly lower than the previous year which included some non-recurring costs.
- (12) Utilities – costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are lower than the previous year reflecting favourable market movements.
- (13) Insurance - costs are favourable to the determination this year and the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (14) Legal and inquiry – costs for the current year and control period to date are in line with the determination. This is a combination of increases and decreases. The increases have arisen largely from extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. Earlier in the control period the Business Change activities were led by this department. These extra items have been offset by some efficiencies over and above the regulatory expectation and devolution of responsibilities to the routes (and so the costs are shown in Other corporate functions). Expenses in the current year are lower than the previous year as Business Change is disclosed separately this year. This reflects the growing importance of this department in driving efficiencies and transformation in the business as Network Rail prepares for the challenges of control period 6.
- (15) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to enhanced focus on safety. 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 this area. The extra investment this control period includes delivery of 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. 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 2017-18 prices unless stated

- (16) 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, resulting in extra costs in the Other corporate functions category. Costs in the current year are consistent with the previous year.
- (17) Business change – whilst costs for the current year are in line with the regulator's expectation, costs for the control period to date are lower than the determination. This is because responsibilities for Business change activities resided within other functions (primarily Legal and inquiry). However, to reflect the increase in the size and scope of these activities a new department has been created to drive efficiencies in the business as it prepares for control period 6.
- (18) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are higher than the previous year reflecting increased training and apprentices costs being charged directly to routes, with a corresponding reduction in the Business services category.
- (19) 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 lower than the previous year mostly due to reductions in the costs of supporting the Digital Railway initiative as more of the work in this area is now focused on delivery of capital projects and so the costs are included in capex.
- (20) Network Rail telecoms – costs for the year and control period are broadly in line with the determination. The slightly higher costs in the control period to date are mainly due to some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible.
- (21) National Delivery Services – costs are in line with the previous year and the regulatory expectation. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Costs are favourable in the control period to date as savings have been made at a quicker rate than the regulator assumed in the PR13 settlement.

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

In £m 2017-18 prices unless stated

- (22) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (23) Commercial Property – net costs in the year are higher than the regulatory estimate. This is largely due to a significant amount of doubtful debts recognised this year. These extra costs in the current year have negated savings made earlier in the control period which had been achieved mainly 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). Net costs in the current year are higher than the previous year due to the aforementioned increase in doubtful debts.
- (24) 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 mainly due to lower performance related payments to staff, re-organisation costs in the current year than the regulator expected as well as receipt of incentive payments for completion of parts of the Thameslink programme in line with agreed timescales. The determination assumed that Group would receive credits of c. £32m 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. £27m 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 mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is in line with the previous year.
- (25) 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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs partly offset by extra British Transport Police costs and higher Business rates. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media.

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

In £m 2017-18 prices unless stated

- (26) 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 lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are broadly in line with the previous year.
- (27) 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 through the Opex memorandum account mechanism (refer to Statement 10). Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency. As a result, Network Rail expects costs to exceed the regulatory assumption for the final year of the control period too.
- (28) British Transport Police costs - expenses in the year are higher than the determination assumed. 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. This year's costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge). In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year are lower than the previous year as a result of some rebates Network Rail received from British Transport Police Authority following finalisation of prior year cost allocations to different industry members.
- (29) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). The level of contribution that Network Rail is required to make under this mechanism has been slightly higher than the regulator's expectation across the control period to date. Network Rail has limited ability to influence the costs payable, as the RSSB acts as an independent organisation within the industry.
- (30) Reporters fees – the determination assumed that the costs incurred under this category would be relatively evenly phased across the control period. However, in practice, most of the Reporters work is completed to support the periodic review setting of access charges and so are expected to be weighted towards the final year of the control period.

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

In £m 2017-18 prices unless stated

- (31) Other industry costs – this relates to costs Network Rail contribute to the Rail Delivery Group (RDG) a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. Extra contributions were required this year (and in the control period to date) compared to the regulator's assumption as the role and activities of the RDG have grown significantly since the regulator prepared the determination.

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

In £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	253	296	298	295	302
Operations and customer services non-signalling	-	-	-	-	-
MOMS	27	36	37	40	41
Control	44	50	50	51	57
Planning & Performance Staff Costs	32	34	40	38	45
Managed Stations Staff Costs	18	19	20	26	22
Operations Management Staff Costs	24	26	28	24	27
Other	122	63	98	101	102
Total operations & customer services costs	520	524	571	575	596
Total Network Operations	520	524	571	575	596
Support					
Human resources					
Functional support	32	16	17	16	16
Training (inc Westwood)	22	12	9	-	-
Graduates	2	-	2	-	-
Apprenticeships	7	9	9	-	-
Other	4	6	1	2	1
Total human resources	67	43	38	18	17
Information management					
Support	8	6	1	5	5
Projects	2	1	1	-	1
Licences	-	-	-	-	-
Business operations	54	64	63	57	54
Other	-	-	-	1	1
Total information management	64	71	65	63	61
Finance	20	19	20	24	23
Business Change	4	2	2	-	4
Contracts & Procurement	9	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	7	7	7	7
Planning & development	16	9	7	3	8
Safety & compliance	17	-	-	-	-
Other corporate services	57	17	18	18	20
Commercial property	110	85	76	76	82
Infrastructure Projects	(61)	(19)	(29)	(27)	(24)
Route Services	14	20	20	20	19
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	153	-	-	-	-
National delivery service	3	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	46	43	53	50
Network Rail Telecoms	-	53	48	31	33
Digital Railway	-	18	23	20	12
Safety Technical & Engineering	-	45	44	33	36
Government & Corporate Affairs	-	16	12	11	9
Business Services	-	16	14	26	16
Route Asset Management	-	1	2	-	5
Legal and inquiry	-	7	8	8	5
Group/central					
Pensions	1	-	-	-	-
Insurance	39	52	60	(9)	37
Redundancy/reorganisation costs	74	18	11	11	11
Staff incentives/Bonus reduction	5	(26)	(7)	-	(9)
Accommodation & Support Recharges	(3)	(29)	(28)	(27)	(27)
Commercial claims settlements	-	-	(32)	(9)	(7)
ORR financial penalty	85	(25)	-	-	-
Other	2	1	(4)	-	8
Total group/central costs	203	(9)	-	(34)	13
Total support	676	447	418	350	396
Total network operations and support costs	1,196	971	989	925	992

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.
- (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.
- (3) Network Operations – costs are slightly higher than the previous year with the largest contribution arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling.
- (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 core business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.
- (5) Human Resources – costs are in line with the previous year but noticeably lower than earlier in the control period. As noted in last year's Regulatory financial statements many of the responsibilities have been transferred from Human resources department to other areas of the organisation. As part of Network Rail's devolution strategy certain training costs have been moved from the centre to the routes (the Route Services heading in this statement). In addition, as the above table shows there is a marked decrease in the Training, Graduates and Apprenticeships categories compared to earlier in the control period due to the responsibility for these activities moving to Business services.
- (6) Finance – costs increases this period have been the result of responsibilities transferring from other cost categories, including Railway Heritage Trust costs, parts of planning & regulation and parts of Shared Services. This extra scope has been offset by efficiencies made from improved working practices and tight control on headcount and staff costs.
- (7) Business change – the decrease in costs compared to 2015/16 is the result of responsibility for this area being transferred to the Legal and inquiry department. As part of Network Rail's planning for CP6 a new Transformation and Efficiency directorate has been created. These costs are included in the Business change category from 2017/18.
- (8) Planning & development – the costs in this area decreased in 2016/17 as some responsibilities were transferred to the Finance department. This year, costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.

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

In £m 2017-18 prices unless stated

- (9) Commercial property – costs are higher than the previous year. This is largely due to an increase in doubtful debts. The previous year benefitted from some additional recoveries of debts that were previously considered doubtful.
- (10) Utilities – the costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. As noted in the prior year's Regulatory financial statements the comparatively lower costs in 2015/16 was due to lower market rates and some one-off benefits.
- (11) Telecoms – costs are broadly in line with the previous year. There is a notable decrease in costs in 2016/17 which was largely driven by renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed, as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (12) Digital railway – costs are lower than the previous year. As noted in the prior year's Regulatory financial statements, expenditure in 2015/16 included substantial programme development costs 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. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. Since then, more of the activity has been focused on delivery of physical projects and so is included within capital projects.
- (13) Safety, Technical & Engineering - costs are in line with the previous year. There is a perceptible decrease in costs from 2016/17. Earlier years of the control period included costs for the design and implementation of 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.
- (14) Government & corporate affairs - costs are similar to the previous year. The reduction in costs compared to earlier years of the control period is mostly due to devolution of communications staff to the routes so they can better understand and support the local route teams and associated communities. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.
- (15) Business services - costs in the year are lower than the previous year mainly arising from recharges made by Business services to other parts of the business for training and apprentices so that route and department costs are more reflective of the resources they consume. These costs are now included in many of the Support lines, such as Other corporate services and Route Asset Management which has resulted in a reduction in costs compared to the previous years.
- (16) Route asset management – during the year, the level of renewals work was less than Network Rail planned. As a result Route asset management staff involved in renewals work had fewer projects to work on, meaning more of their time was directed towards other activities this year compared to 2016/17.
- (17) Legal and inquiry – as noted above, Business change costs have increased this year as a result of the new Transformation and Efficiency directorate being included separately. Previously these costs were included within Legal and inquiry and so costs in this category have reduced compared to the year.

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

In £m 2017-18 prices unless stated

- (18) Group – Insurance – costs are higher than last year. As reported in last year's Regulatory financial statements there was a non-recurring benefit from the year end actuarial review of liabilities, when the level of provisions for outstanding claims was reduced. Costs this year are lower than earlier in the control period as in 2016/17 Network Rail altered its insurance strategy to fall more in line with the rest of government. As a result premiums are lower, but more risk is retained by the organisation. This change in strategy was necessitated by much higher market premiums than the regulator assumed in the determination. Severe weather events towards the end of control period 4 had a high profile impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. In addition, there have been overall increases in market premiums across the entire insurance industry (including increases in insurance premium tax imposed by the government). As a result the business case for procuring a lower level of insurance cover became more compelling. 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 or damage caused by Network Rail's road fleet) which are now more expensive.
- (19) 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 in the last year of CP4. As part of this reorganisation initiative there was costs incurred in 2014/15 too. Since then, there have been fewer restructures and so costs are lower. As part of the latest pay and conditions negotiations with trade unions, it was agreed that there would be no compulsory redundancies for front line staff until at least 2019. Expenses in the current year includes extra staff costs relating to holiday entitlement following a legally-binding ruling made by an Employment Tribunal on the Dudley County Council versus Willets et al case during the year.
- (20) 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. The credit balance in 2015/16 relates to lower expected pay-outs for long-term incentive plans to be made as a result of performance not meeting corporate targets. The credit in the current year mostly relates to Network Rail's Remuneration Committee reducing the performance related pay in relation to the 2016/17 targets. The planned costs of these schemes were 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 was recognised in Group.
- (21) Group – commercial claims settlements – as noted in the previous year's Regulatory financial statements Network Rail benefitted from some non-recurring savings as a result of commercial agreements being made with third parties in 2015/16. 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. In 2016/17, there were further contractual refinements for which Network Rail were compensated. The current year largely relates to receipts from delivering parts of the Thameslink programme to agreed timescales.

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

In £m 2017-18 prices unless stated

(22) 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, after the conclusion of the control period, 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).

(23) Group - Other – following changes in legislation introduced by the government with effect from April 2017, companies are charged 0.5 per cent of their pay bill to fund the government's Apprentice Levy. The costs of this extra tax is included in Group for the first time this year. It is planned for these costs to be recognised in the costs of the each department from 2018/19. Whilst Network Rail are eligible to apply for funding through the Apprentice Levy it would require an unrealistic number of apprentices to be recruited each year to neutralise the financial impact of the levy. The costs within the Other category also include extra costs

Statement 7c: Insurance reconciliation, Great Britain

In £m 2017-18 prices unless stated

A) Reconciliation of costs	Market based insurance			Self insurance Claims recognised			Total	
Risk	Underlying cost	Claims paid	Market	Underlying cost	by the	Captive premiums	Other	Total cost
			premiums		captive			
			A		B		C	D
Property	0	0	2	5	0	6	0	2
Business interruption	0	0	2	8	0	0	0	2
Terrorism	0	0	3	0	0	0	0	3
Employer's liability	0	0	0	1	0	0	0	0
Public & products liability	0	0	2	8	1	15	0	3
Motor	0	0	1	1	0	0	0	1
Construction all risks	2	0	1	2	2	1	0	3
Other cover	0	0	1	0	0	1	1	2
Investment return	0	0	0	0	0	0	1	1
Total	2	0	12	25	3	23	2	17

Total insurance recognised in:

Schedule 4 & 8	0	0	2	8	0	0	0	2
Operations	0	0	0	0	0	0	0	0
Support costs	2	0	10	17	3	23	2	15
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	12	25	3	23	2	17

B) Analysis of Network Rail Insurance Limited, Great Britain

Profit/(loss) derived from:	2017-18	2016-17	2015-16	2014-15	Cumulative
Operations	22	59	(54)	(28)	(1)
Investment revenues	1	2	2	1	6
Finance costs	0	0	0	0	0
Profit/(loss) before tax	23	61	(52)	(27)	5
Tax	0	0	0	0	0
Profit/(loss) attributable to shareholders	23	61	(52)	(27)	5

Statement 7c: Insurance reconciliation, Great Britain – continued

In £m 2017-18 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 once again 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) 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) Although, this year Network Rail Insurance Limited has made a profit (unaudited) it is lower than the profits made in the previous year. This benefitted from some non-recurring gains following a full actuarial assessment of expected liabilities under different insurance policies. 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.

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

In £m 2017-18 prices unless stated

Actual spend in year

	2017-18				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 keepers	278	0	0	278	220	0	0	220	(58)	0	0	(58)
Signalling shift managers	17	0	0	17	14	0	0	14	(3)	0	0	(3)
Local operations managers	21	0	0	21	16	0	0	16	(5)	0	0	(5)
Controllers	43	(1)	0	42	33	0	0	33	(10)	1	0	(9)
Electrical control room operators	16	(3)	0	13	12	0	0	12	(4)	3	0	(1)
Total signaller expenditure	375	(4)	0	371	295	0	0	295	(80)	4	0	(76)
Non-signaller expenditure												
Mobile operations managers	41	(1)	0	40	30	0	0	30	(11)	1	0	(10)
Managed stations	61	0	0	61	38	0	0	38	(23)	0	0	(23)
Performance	22	(9)	0	13	14	0	0	14	(8)	9	0	1
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	14	0	0	14	18	0	0	18	4	0	0	4
Other	49	(10)	0	39	14	0	0	14	(35)	10	0	(25)
Operations delivery	49	(44)	0	5	0	0	0	0	(49)	44	0	(5)
HQ - Operations services	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Performance and planning	17	(15)	0	2	0	0	0	0	(17)	15	0	(2)
HQ - Stations and customer services	2	0	0	2	0	0	0	0	(2)	0	0	(2)
HQ - Other	98	(9)	0	89	29	0	0	29	(69)	9	0	(60)
Other operating income	0	0	(49)	(49)	0	0	(20)	(20)	0	0	29	29
Total non-signaller expenditure	371	(97)	(49)	225	150	0	(20)	130	(221)	97	29	(95)
Total network operations expenditure	746	(101)	(49)	596	445	0	(20)	425	(301)	101	29	(171)

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

In £m 2017-18 prices unless stated

Actual spend in year

	2017-18				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	19	0	(2)	17	60	0	(2)	58	41	0	0	41
Information management	84	(20)	(3)	61	65	0	(4)	61	(19)	20	(1)	0
Government and corporate affairs	9	0	0	9	19	0	0	19	10	0	0	10
Group strategy	17	(8)	(1)	8	12	0	0	12	(5)	8	1	4
Finance	19	5	(1)	23	27	0	0	27	8	(5)	1	4
Business services	28	(4)	(8)	16	15	0	(1)	14	(13)	4	7	(2)
Accommodation	77	0	0	77	73	0	0	73	(4)	0	0	(4)
Utilities	60	0	(10)	50	44	0	0	44	(16)	0	10	(6)
Insurance	37	0	0	37	48	0	0	48	11	0	0	11
Legal and inquiry	5	0	0	5	6	0	0	6	1	0	0	1
Safety and sustainable development	23	(3)	(1)	19	8	0	0	8	(15)	3	1	(11)
Strategic sourcing	7	0	0	7	23	0	(14)	9	16	0	(14)	2
Business change	4	0	0	4	3	0	0	3	(1)	0	0	(1)
Other corporate functions	94	0	(50)	44	3	0	0	3	(91)	0	50	(41)
Core support costs	483	(30)	(76)	377	406	0	(21)	385	(77)	30	55	8
Other support costs												
Asset management services	75	(38)	(8)	29	68	0	(22)	46	(7)	38	(14)	17
Network Rail telecoms	62	(22)	(7)	33	33	0	0	33	(29)	22	7	0
National delivery service	0	0	0	0	30	0	(31)	(1)	30	0	(31)	(1)
Infrastructure projects	466	(487)	(3)	(24)	0	0	0	0	(466)	487	3	24
Commercial property	58	(15)	(38)	5	30	0	(35)	(5)	(28)	15	3	(10)
Group costs	(4)	(9)	(11)	(24)	2	0	(7)	(5)	6	9	4	19
Total other support costs	657	(571)	(67)	19	163	0	(95)	68	(494)	571	(28)	49
Total support costs	1,140	(601)	(143)	396	569	0	(116)	453	(571)	601	27	57

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

In £m 2017-18 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 keepers	1,105	(3)	0	1,102	957	0	0	957	(148)	3	0	(145)
Signalling shift managers	73	(1)	0	72	58	0	0	58	(15)	1	0	(14)
Local operations managers	87	(3)	0	84	64	0	0	64	(23)	3	0	(20)
Controllers	164	(10)	0	154	132	0	0	132	(32)	10	0	(22)
Electrical control room operators	60	(7)	0	53	46	0	0	46	(14)	7	0	(7)
Total signaller expenditure	1,489	(24)	0	1,465	1,257	0	0	1,257	(232)	24	0	(208)
Non-signaller expenditure												
Mobile operations managers	157	(5)	0	152	128	0	0	128	(29)	5	0	(24)
Managed stations	242	1	0	243	163	0	0	163	(79)	(1)	0	(80)
Performance	78	(10)	0	68	58	0	0	58	(20)	10	0	(10)
Customer relationship executives	32	(6)	0	26	30	0	0	30	(2)	6	0	4
Route enhancement managers	39	(34)	0	5	0	0	0	0	(39)	34	0	(5)
Weather	62	(8)	0	54	78	0	0	78	16	8	0	24
Other	237	(94)	0	143	58	0	0	58	(179)	94	0	(85)
Operations delivery	171	(155)	0	16	0	0	0	0	(171)	155	0	(16)
HQ - Operations services	4	0	0	4	0	0	0	0	(4)	0	0	(4)
HQ - Performance and planning	60	(39)	0	21	0	0	0	0	(60)	39	0	(21)
HQ - Stations and customer services	4	0	0	4	0	0	0	0	(4)	0	0	(4)
HQ - Other	274	(53)	0	221	121	0	0	121	(153)	53	0	(100)
Other operating income	1	0	(157)	(156)	0	0	(85)	(85)	(1)	0	72	71
Total non-signaller expenditure	1,361	(403)	(157)	801	636	0	(85)	551	(725)	403	72	(250)
Total network operations expenditure	2,850	(427)	(157)	2,266	1,893	0	(85)	1,808	(957)	427	72	(458)

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

In £m 2017-18 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	136	(11)	(8)	117	259	0	(9)	250	123	11	(1)	133
Information management	374	(100)	(12)	262	279	0	(19)	260	(95)	100	(7)	(2)
Government and corporate affairs	55	(7)	0	48	78	0	0	78	23	7	0	30
Group strategy	72	(40)	(4)	28	48	0	0	48	(24)	40	4	20
Finance	80	8	(1)	87	117	0	0	117	37	(8)	1	30
Business services	96	(10)	(15)	71	62	0	(3)	59	(34)	10	12	(12)
Accommodation	335	(3)	0	332	307	0	0	307	(28)	3	0	(25)
Utilities	251	(2)	(58)	191	182	0	0	182	(69)	2	58	(9)
Insurance	141	0	0	141	203	0	0	203	62	0	0	62
Legal and inquiry	30	(1)	0	29	26	0	0	26	(4)	1	0	(3)
Safety and sustainable development	124	(29)	(6)	89	36	0	0	36	(88)	29	6	(53)
Strategic sourcing	30	0	0	30	95	0	(55)	40	65	0	(55)	10
Business change	8	0	0	8	15	0	0	15	7	0	0	7
Other corporate functions	565	(203)	(201)	161	14	0	0	14	(551)	203	201	(147)
Core support costs	2,297	(398)	(305)	1,594	1,721	0	(86)	1,635	(576)	398	219	41
Other support costs							0	0				
Asset management services	312	(144)	(27)	141	274	0	(90)	184	(38)	144	(63)	43
Network Rail telecoms	283	(88)	(31)	164	158	0	0	158	(125)	88	31	(6)
National delivery service	0	0	0	0	121	0	(110)	11	121	0	(110)	11
Infrastructure projects	1,744	(1,817)	(28)	(101)	0	0	0	0	(1,744)	1,817	28	101
Commercial property	199	(63)	(151)	(15)	120	0	(136)	(16)	(79)	63	15	(1)
Group costs	(26)	(14)	(131)	(171)	(1)	0	(25)	(26)	25	14	106	145
Total other support costs	2,512	(2,126)	(368)	18	672	0	(361)	311	(1,840)	2,126	7	293
Total support costs	4,809	(2,524)	(673)	1,612	2,393	0	(447)	1,946	(2,416)	2,524	226	334

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and Support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.
- (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.
- (3) Network operations costs in 2017/18 are approximately 30 per cent higher than the regulator assumed. 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 cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are slightly higher than the previous year with the largest contribution arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling.

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

In £m 2017-18 prices unless stated

- (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 core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.
- (5) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (6) 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 Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are in line with the previous year as many of the transfers of responsibilities were in place for 2016/17.
- (7) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors. Costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.
- (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 this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16, part of the Group strategy team and Business Services in the previous year.

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

In £m 2017-18 prices unless stated

- (9) Business services – costs in this category are broadly in line with the determination assumption. The slightly higher value is due to some of the responsibilities for professional training and development (including apprentices) transferring from Human resources, which contributes to the saving in that category. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and a portion of these costs are now included within Business services who manage the scheme. This transfer of activity also accounts for most of the variance to the regulator's assumption in the control period to date. Costs in the year are lower than the previous year as many of the training and apprentice costs are being recharged elsewhere in the organisation so that route and department costs are more reflective of the resources they consume, with increases across most functions but especially in the routes (which is included in Other corporate functions).
- (10) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be over 15 per cent lower than the CP4 exit position by 2017/18, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the regulatory target. This was mostly due to new office space acquired in London in 2014/15 for the Kent and Sussex routes. Costs are slightly lower than the previous year which included some non-recurring costs.
- (11) Utilities – costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are lower than the previous year reflecting favourable market movements.
- (12) Insurance - costs are favourable to the determination this year and the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.

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

In £m 2017-18 prices unless stated

- (13) Legal and inquiry – costs for the current year and control period to date are in line with the determination. This is a combination of increases and decreases. The increases have arisen largely from extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. Earlier in the control period the Business Change activities were led by this department. These extra items have been offset by some efficiencies over and above the regulatory expectation and devolution of responsibilities to the routes (and so the costs are shown in Other corporate functions). Expenses in the current year are lower than the previous year as Business Change is disclosed separately this year. This reflects the growing importance of this department in driving efficiencies and transformation in the business as Network Rail prepares for the challenges of control period 6.
- (14) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to enhanced focus on safety. 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 this area. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.
- (15) 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, resulting in extra costs in the Other corporate functions category. Costs in the current year are consistent with the previous year.
- (16) Business change – whilst costs for the current year are in line with the regulator's expectation, costs for the control period to date are lower than the determination. This is because responsibilities for Business change activities resided within other functions (primarily Legal and inquiry). However, to reflect the increase in the size and scope of these activities a new department has been created to drive efficiencies in the business as it prepares for control period 6.
- (17) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are higher than the previous year reflecting increased training and apprentices costs being charged directly to routes, with a corresponding reduction in the Business services category.

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

In £m 2017-18 prices unless stated

- (18) 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 lower than the previous year mostly due to reductions in the costs of supporting the Digital Railway initiative as more of the work in this area is now focused on delivery of capital projects and so the costs are included in capex.
- (19) Network Rail telecoms – costs for the year and control period are broadly in line with the determination. The slightly higher costs in the control period to date are mainly due to some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible.
- (20) National Delivery Services – costs are in line with the previous year and the regulatory expectation. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Costs are favourable in the control period to date as savings have been made at a quicker rate than the regulator assumed in the PR13 settlement.
- (21) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (22) Commercial Property – net costs for the year are higher than the regulatory estimate. This is largely due to a significant amount of doubtful debts recognised this year. These extra costs in the current year have negated savings made earlier in the control period which had been achieved mainly 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). Net costs in the current year are higher than the previous year due to the aforementioned increase in doubtful debts.

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

In £m 2017-18 prices unless stated

(23) 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 mainly due to lower performance related payments to staff, re-organisation costs in the current year than the regulator expected as well as receipt of incentive payments for completion of parts of the Thameslink programme in line with agreed timescales. The determination assumed that Group would receive credits of c. £32m 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. £27m 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 mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is in line with the previous year.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	573	424	(149)	2,240	1,794	(446)	569
Signalling	214	159	(55)	824	662	(162)	207
Civils	184	147	(37)	679	616	(63)	191
Buildings	70	57	(13)	221	221	-	77
Electrical power and fixed plant	107	98	(9)	393	404	11	95
Telecoms	28	21	(7)	102	87	(15)	27
Other network operations	175	152	(23)	755	649	(106)	162
Asset management services	54	35	(19)	217	148	(69)	65
National Delivery Service	(9)	45	54	(34)	189	223	(10)
Property	6	5	(1)	38	22	(16)	8
Group	(22)	(19)	3	(88)	(76)	12	(21)
Total network maintenance	1,380	1,124	(256)	5,347	4,716	(631)	1,370

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

In £m 2017-18 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 previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by extra electrification maintenance as more of the network is electrified. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Given the 20,000 miles of track that requires inspection and remediation this is perhaps not surprising. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but 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 base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17 with some extra expenses resulting from legal changes affecting overtime.

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

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting legal changes to overtime and further deferrals of renewals programmes requiring extra asset maintenance instead.
- (4) Civils – costs were higher than the determination mainly as a result of extra civils inspection costs partly offset by savings in reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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 other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. The reductions in costs compared to the previous year are also due to a combination of reduced reactive maintenance and inspection costs, which, as noted in the previous year's Regulatory Financial Statements was impacted by contractor disputes.

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

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, bringing the control period to date position in line with the regulatory expectation. Variances in this category 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 – costs for the current year are higher than the regulator assumed, reversing the trend of earlier in the control period. There is also a noticeable increase in costs compared to the previous year. As Network Rail continues with its ambitious programme to electrify large parts of the railway network, there is a requirement for maintenance teams to ensure that these assets are functioning correctly. This increase is most evident in the Western route where electrification of the network is most evident. The increases in capability in this area is demonstrated in Statement 8b, which shows significant increases in headcount in this category over the control period to date. Savings in the control period to date have been generated through delays in installing some of the new electrification equipment as well as through a number of local efficiencies, including restricting overtime and undertaking more risk based maintenance. In addition, certain responsibilities have been moved to Other network operations which has increased costs in that category.
- (7) Telecoms – costs are higher than the regulatory assumption this year and in the control period to date. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. Delays in renewals delivery (refer to Statement 9a) have also contributed as additional maintenance costs are required to keep the assets running in the required manner.
- (8) Other network operations – costs for the current year are higher than the regulator's expectation. This is due to one of costs from consolidation in Wessex Delivery Units and for activity transferring from other headings within this statement. For the control period to date, the higher costs compared to the PR13 prediction is mainly caused by extra safety and performance improvement costs. 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 re-invest these funds in improving the safety and performance of the network. A total of £39m was spent in 2014/15 and £7m in 2015/16 on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are higher than the previous year as a result of activity transferring to this category from other headings within this statement (notably Asset management services, Track and Signalling).

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

In £m 2017-18 prices unless stated

- (9) Asset management services – costs are higher than the regulator's assumption this year and the control period to date. This is due a multitude of factors including: transfer of responsibilities from Civils, transfer of activity from Electrical power and fixed plant, 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. Costs are lower than the previous year mostly due to a favourable settlement of a commercial dispute in the current year.
- (10) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.
- (11) Property – expenses in the current year are in line with the determination but are higher for the control period to date. This is mostly due to the inclusion of additional costs for remediation and decontamination of certain parts of Network Rail's rental estate following tenants' bankruptcy earlier in the control period which left Network Rail to bear the costs of site clearance.
- (12) 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. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). This is expected to result in reduced income, albeit with a capital saving, in the final year of the control period.

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

	2014-15	2015-16	2016-17	2017-18
Track	8,133	8,143	8,580	8,524
Signalling	3,268	3,262	3,774	3,782
Civils	261	247	244	246
Buildings	155	169	208	204
Electrical power and fixed plant	1,516	1,521	1,734	1,965
Telecoms	488	522	516	515
Other network operations	1,631	1,790	2,054	2,004
Asset management services	-	-	-	-
National delivery service	743	1,081	1,105	1,121
Property	-	-	-	-
Group	-	-	-	-
Other maintenance	-	-	-	-
Total network maintenance headcount	16,195	16,735	18,215	18,361

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 directly 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 reported in this statement has increased compared to the previous year. This is mainly due to increases in the number of staff required to maintain electric assets on the network. Network Rail has been undertaking an ambitious electrification programme this control period which has necessitated an increase in the size of teams to keep the assets working as required. This has been partly offset by organisational efficiencies in other maintenance categories.

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Ashford	25	23	24	24	96
Bedford	19	19	19	18	75
Bletchley	30	30	31	32	123
Bristol	20	19	21	21	81
Brighton	26	27	25	25	103
Carlisle	25	25	26	28	104
Clapham	27	26	28	40	121
Cardiff	32	32	32	35	131
Croydon	25	26	27	25	103
Derby	23	23	26	26	98
Doncaster	19	18	20	20	77
Eastleigh	23	22	22	36	103
Edinburgh	22	23	24	20	89
Glasgow	15	15	15	23	68
Hitchin	24	25	26	25	100
Ipswich	28	27	27	28	110
Leeds	18	19	20	19	76
Liverpool	23	25	26	26	100
London Bridge	24	25	25	26	100
London Euston	29	26	26	25	106
Manchester	31	30	31	33	125
Motherwell	29	28	27	27	111
Newcastle	22	26	27	25	100
Orpington	20	21	21	21	83
Perth	15	15	17	16	63
Plymouth	15	15	16	17	63
Preston	16	15	16	17	64
Reading	16	18	20	23	77
Romford	35	32	34	34	135
Saltley	25	27	29	30	111
Sandwell & Dudley	20	22	24	25	91
Sheffield	15	15	19	17	66
Shrewsbury	15	16	17	19	67
Stafford	21	22	23	25	91
Swindon	15	18	21	19	73
Tottenham	34	32	33	33	132
Warrington	21	20	20	21	82
Woking	30	26	25	0	81
York	20	22	25	24	91
Centrally managed					
Structures examinations	75	91	108	111	385
Major items of maintenance plant	6	5	4	9	24
HQ managed activities	69	36	28	31	164
Other	229	297	295	281	1,102
Total network maintenance	1,271	1,324	1,370	1,380	5,345

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

In £m 2017-18 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) Overall, costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by extra electrification maintenance as more of the network is electrified. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK.
- (2) Total depots costs are in line with the previous year but there have been changes within the individual depots cost profiles as set out below:
 - a. Woking/ Clapham/ Eastleigh - there is a noticeable decrease in the costs for Woking depot this year following the closure of the depot. As part of the efficiency strategy in the Wessex route, the number of delivery units was rationalised. The savings made from the Woking depot closure is mostly offset by increased costs in Clapham and Eastleigh depots as maintenance responsibilities have transferred to these two locations. The impact of this reorganisation is also shown in Statement 8d, which shows the headcount movements between these depots as staff transfer.
 - b. Glasgow/ Edinburgh - costs in the Glasgow depot are perceptibly higher than the previous year. This is largely due to a reorganisation of responsibilities in the Scotland route, which has also resulted in reductions in the costs attributed to the Edinburgh depot and the Other category which have been largely offset by increases in HQ Managed Activities. The impact of this reorganisation is also shown in Statement 8d, which shows the headcount movements between these depots as staff transfer.
 - c. Reading - this depot has higher costs than in 2016/17. This is due to new electrification teams recruited to manage the new electrified assets in the Western route.
 - d. Cardiff – costs in this depot have increased which includes additional electrification resource as parts of the route are electrified as part of the Great Western Electrification Programme.
- (3) Major items of maintenance plant – costs are noticeably higher this year compared to 2016/17 as some activity has been reclassified from Other. There is a corresponding decrease in the expenses in that category.

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

	2014-15			2015-16			2016-17			2017-18		
	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total
Ashford	320	1	321	304	1	305	306	-	306	311	-	311
Bedford	300	-	300	301	-	301	284	-	284	293	-	293
Bletchley	364	1	365	390	1	391	365	-	365	365	-	365
Bristol	366	1	367	378	1	379	326	-	326	357	-	357
Brighton	358	1	359	329	-	329	324	-	324	330	-	330
Carlisle	373	-	373	378	-	378	374	-	374	375	-	375
Clapham	300	-	300	317	-	317	335	1	336	498	1	499
Cardiff	416	1	417	423	1	424	444	1	445	477	1	478
Croydon	295	-	295	275	2	277	287	-	287	287	-	287
Derby	460	1	461	495	-	495	400	-	400	528	-	528
Doncaster	292	-	292	291	-	291	294	-	294	303	-	303
Eastleigh	298	2	300	315	1	316	341	-	341	492	6	498
Edinburgh	327	-	327	348	-	348	353	-	353	288	1	289
Glasgow	250	-	250	253	-	253	256	-	256	379	-	379
Hitchin	342	1	343	358	1	359	363	-	363	363	-	363
Ipswich	405	-	405	420	-	420	424	-	424	428	-	428
Leeds	309	2	311	309	1	310	305	-	305	305	-	305
Liverpool	346	-	346	353	-	353	348	1	349	338	2	340
London Bridge	294	1	295	285	-	285	290	1	291	302	-	302
London Euston	322	-	322	315	-	315	292	-	292	325	-	325
Manchester	447	3	450	447	1	448	455	-	455	460	-	460
Motherwell	402	-	402	413	-	413	409	-	409	418	-	418
Newcastle	383	-	383	382	-	382	380	-	380	376	-	376
Orpington	260	-	260	247	-	247	248	-	248	248	-	248
Perth	216	-	216	221	-	221	230	-	230	237	1	238
Plymouth	314	1	315	333	-	333	273	-	273	279	1	280
Preston	271	2	273	273	-	273	278	-	278	270	-	270
Reading	331	5	336	350	6	356	328	4	332	360	4	364
Romford	426	4	430	448	2	450	453	1	454	468	1	469
Saltley	328	-	328	348	-	348	348	-	348	356	-	356
Sandwell & Dudley	304	3	307	312	4	316	322	1	323	324	1	325
Sheffield	317	1	318	312	-	312	300	1	301	302	1	303
Shrewsbury	259	-	259	270	-	270	291	-	291	305	-	305
Stafford	325	2	327	322	1	323	326	1	327	322	1	323
Swindon	256	2	258	306	1	307	298	-	298	335	-	335
Tottenham	428	1	429	452	1	453	459	3	462	471	1	472
Warrington	343	-	343	341	-	341	343	-	343	339	1	340
Woking	380	2	382	390	6	396	359	-	359	-	-	-
York	372	2	374	381	2	383	385	1	386	361	1	362
Centrally managed												
Route HQ	2,172	142	2,314	2,093	142	2,235	3,745	154	3,899	3,529	112	3,641
Other HQ	623	119	742	959	122	1,081	1,019	85	1,104	1,047	74	1,121
Total network maintenance	15,894	301	16,195	16,437	297	16,734	17,960	255	18,215	18,151	210	18,361

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 reported in this statement has increased compared to the previous year. This is mainly due to increases in the number of staff required to maintain electric assets on the network. Network Rail has been undertaking an ambitious electrification programme this control period which has necessitated an increase in the size of teams to keep the assets working as required.
- (2) Total depots headcount has increased since the previous year. This is mostly due to increases in electrification resources as more of the network becomes electrified and so requires additional resource to operate optimally. This is also shown in Statement 8b which shows the increase in this category. The increase is compounded by a general trend of more responsibilities moving from central maintenance functions to the depots to allow more responsive teams and better management of local issues. This is also shown by the decrease in Route HQ staff. Notably movements in the depots include:
 - a. Woking/ Clapham/ Eastleigh - there is a noticeable decrease in the headcount for Woking depot this year following the closure of the depot. As part of the efficiency strategy in the Wessex route, the number of delivery units was rationalised. The reduction in headcount arising from the Woking depot closure is mostly offset by increased headcount in Clapham and Eastleigh depots as maintenance responsibilities have transferred to these two locations. The impact of this reorganisation is also shown in Statement 8c, which shows the maintenance cost movements between these depots as staff transfer.
 - b. Glasgow/ Edinburgh - headcount in the Glasgow depot is perceptibly higher than the previous year. This is largely due to a reorganisation of responsibilities in the Scotland route, which has also resulted in reductions in the headcount in the Edinburgh depot. The impact of this reorganisation is also shown in Statement 8c, which shows the h maintenance cost between these depots as staff transfer.
 - c. Reading/ Swindon/ Bristol - these depots on the Western route all have higher headcount than in 2016/17. This is due to new electrification teams recruited to manage the new electrified assets in the this route.
 - d. Cardiff – headcount in this depot has increased which includes additional electrification resource as parts of the route are electrified as part of the Great Western Electrification Programme.
 - e. Derby – parts of the organisational structure have been reclassified as Other HQ this year, including the operations around the Lincoln and Sleaford areas.
- (3) Route HQ – the decrease in headcount is largely due to a trend of responsibilities transferring from central areas to local depots. This is offset by increases in the headcount within depots.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	764	718	(46)	3,772	3,062	(710)	1,013
Signalling	680	618	(62)	2,630	3,040	410	572
Civils	403	431	28	2,236	1,921	(315)	581
Buildings	80	155	75	642	703	61	131
Electrical power and fixed plant	160	158	(2)	649	871	222	201
Telecoms	51	61	10	268	353	85	74
Wheeled plant and machinery	62	118	56	305	540	235	72
Information technology	74	83	9	475	358	(117)	95
Property	16	27	11	80	105	25	22
Other renewals	123	278	155	668	184	(484)	121
Total renewals expenditure	2,413	2,647	234	11,725	11,137	(588)	2,882

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

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially 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). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is £0.6bn higher than the determination which included an assumption that £0.3bn of activity planned at an individual asset level would be deferred and includes £0.3bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year with decreases across most asset categories as Network Rail seeks to invest its limited funds in the most optimal way, which has included deferring activities to the final year of the control period and with greater resources redirected to Schedule 8 and maintenance and operations activities to compensate for lower than expected improvements.

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

In £m 2017-18 prices unless stated

- (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 opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan across all categories. Whilst Plain Line is only expected to be marginally lower, High Output volumes are less than half the planned amount as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. In particular there were major efficiencies planned from High Output, which was a new delivery method being developed at the end of CP4, but these expected gains have proven to be over optimistic. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered. This was most evident in High Output where concerns over the productivity led to a planned reduction in the level of activity with total delivery around one-third of that delivered in 2016/17. Similarly, S&C delivery was about 30 per cent less than 2016/17 whilst Plain Line refurbishment decreased by approximately 15 per cent. Less drainage and fencing works were also completed.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was higher than the determination expected, mitigating some of the underspend that had occurred earlier in the control period. The higher costs were due to underlying costs being more expensive than the regulator assumed partly alleviated by deferral of programmes. Expenditure on ERTMS programmes was lower than anticipated as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. In addition, some ERTMS outputs are being delivered under the Operating strategy other capital expenditure category which helps explain the overspend in this area. 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 and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on Weaver to Wavertree, Birmingham New Street phase 6, Polmadie & Rutherglen and Huddersfield Bradford contributed nearly £100m of extra investment this year compared to 2016/17. Conversely, as the Cardiff are resignalling and East Kent Phase 2 schemes are substantially complete, expenditure this year across these two schemes were over £50m lower than the previous year.

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

In £m 2017-18 prices unless stated

- (4) Civils – expenditure in the year was lower than the regulator anticipated as higher underlying costs were mitigated by deferral of activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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 for the control period to date is higher than the determination expected with higher costs across almost all categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed over £120m of extra costs this control period – including damage to Dover seawall, Lamington viaduct, Settle-Carlisle line and Harbury landslip), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. In addition, as noted in the prior year's regulatory financial statements the level of activity in 2016/17 included some significant remediation costs following damage to the network from externalities, most notably weather damage to Dover sea wall and the Settle-Carlisle line.

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

In £m 2017-18 prices unless stated

- (5) Buildings – expenditure in the year was about half the level the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The most noticeable category of underspend was in Franchised stations as work was completed in earlier years of the control period. Investment in this category is broadly in line with the regulatory target. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's ever increasing efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. 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 (June 2017) 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 in the control period is lower than the regulatory expectation, mainly due to lower expenditure in the current year. However, the underlying position is one of increased like-for-like costs more than offset by deferral of activity. This deferral is most pronounced in Managed stations, including lower than planned renewals at Waterloo, Liverpool Lime Street, Birmingham New Street and lower train shed works in Sussex. Expenditure is lower than the previous year mainly due to lower investment at Franchised stations as more work was undertaken in earlier years of the control period compared to the regulator's assumption. In addition, a higher proportion of minor works undertaken this year were classified as renewals in line with Network Rail's cost and volume reporting policies. This meant higher Buildings renewals, but lower Buildings maintenance (as shown in Statement 8a).

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

In £m 2017-18 prices unless stated

- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. 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 scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. 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 (June 2017) 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 in the control period to date is approximately 25 per cent lower than the determination anticipated. This is partly due to delays across the portfolio and some of this shortfall is expected to be caught up in the final year of the control period. The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development alongside concentration of technical resources on the Great Western Electrification programme have contributed to the slower rate of spend. This SCADA underspend in the control period to date is anticipated to be partly reduced in the final year of the control period where additional investment is expected in this programme. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was lower than the previous year with notable contributions from Overhead line (following completion of a major project to improve resilience on the East Coast Main Line in 2016/17) and DC distribution (as Wessex LV cables and Sussex Switchgear replacement campaigns both draw to a close).
- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. A large portion of the underspend in the control period to date is expected to be caught up in the remaining year of the control period as further programmes are designed and delivered. 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 (June 2017) 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 for the control period to date is around a quarter less than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6. Expenditure is lower than the previous year, which included investment in licences and resilience projects as services are migrated from life-expired system.

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

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. There is additional investment in the Invention category this year which includes acquisition of Rail grinder plant. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the year is lower than the determination assumed, but higher in the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are lower than the regulator's assumption in the current year and the control period to date. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. Given the bespoke nature of these schemes annual expenditure can be uneven which can help explain why costs are lower in the current year compared to 2016/17 which included significant investment in new offices in Birmingham to replace leased premises and so yield operational cost savings. The lower levels of investment reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity.

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

In £m 2017-18 prices unless stated

(11) Other renewals includes the following notable items:

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure was lower than the previous year as programme milestones are delivered. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- 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 higher than planned this year as Network Rail catches up some of the slower delivery in early years of the control period. This year's expenditure on the fund is higher than the previous year, as activity ramps up. Notable projects delivered on the year include work on the Brighton Main Line to improve ability to fix electrical faults and delivery of projects in the Wessex route.
- d. Small plant – expenditure continues to be lower than the regulator's determination which is consistent with the 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 purchased 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 optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway. Given the cash constraints faced by the organisation, funding has been redeployed to front line activities which have a more direct link to short term performance and safety. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

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

In £m 2017-18 prices unless stated

- e. Research and development – research and development activity in the control period to date has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has to be funded through renewals. As a result values are included for the first time this year. As there was no renewals funding in the determination this is included as underperformance 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).
- f. 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 with variances in the control period to date being reversed in the final year of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- g. CP4 rollover - following the end of the previous control period (CP4), 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. Almost all of the expenditure in the current year is on 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 more of the schemes that were rolled over from CP4 are completed.
- h. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	271	264	(7)	1,314	1,049	(265)
High output renewal	124	115	(9)	763	485	(278)
Plain line refurbishment	59	31	(28)	257	121	(136)
S&C renewal	153	135	(18)	721	676	(45)
S&C refurbishment	42	48	6	181	181	-
Track non-volume	37	56	19	179	259	80
Off track	78	69	(9)	357	291	(66)
Total track	764	718	(46)	3,772	3,062	(710)
Signalling						
Full conventional resignalling	304	119	(185)	1,146	844	(302)
Modular resignalling	30	17	(13)	68	143	75
ERTMS resignalling	10	94	84	49	176	127
Partial conventional resignalling	112	131	19	427	691	264
Targeted component renewal	9	19	10	26	102	76
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	20	11	(9)	76	45	(31)
Operating strategy other capital expenditure	34	18	(16)	189	169	(20)
Level crossings	58	101	43	196	395	199
Minor works	89	70	(19)	395	316	(79)
Centrally managed costs	14	38	24	58	159	101
Other	-	-	-	-	-	-
Total signalling	680	618	(62)	2,630	3,040	410
Civils						
Underbridges	146	188	42	843	847	4
Overbridges	50	31	(19)	237	136	(101)
Bridgeguard 3	6	-	(6)	34	-	(34)
Major structures	13	16	3	105	69	(36)
Tunnels	22	29	7	100	122	22
Other assets	46	39	(7)	247	180	(67)
Structures other	9	33	24	50	144	94
Earthworks	111	95	(16)	619	423	(196)
Other	-	-	-	1	-	(1)
Total civils	403	431	28	2,236	1,921	(315)
Buildings						
Managed stations	11	27	16	74	153	79
Franchised stations	43	98	55	414	428	14
Light maint depots	10	9	(1)	60	36	(24)
Depot plant	1	10	9	9	37	28
Lineside buildings	3	3	-	44	17	(27)
MDU buildings	10	6	(4)	36	25	(11)
NDS depots	-	2	2	3	7	4
Other	2	-	(2)	2	-	(2)
Capitalised overheads	-	-	-	-	-	-
Total buildings	80	155	75	642	703	61

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	3	4	1	8	41	33
Overhead Line	43	32	(11)	176	171	(5)
DC distribution	14	35	21	120	175	55
Conductor rail	5	11	6	39	51	12
SCADA	16	6	(10)	27	54	27
Energy efficiency	-	3	3	5	10	5
System capability / capacity	7	3	(4)	17	30	13
Other electrical power	11	15	4	38	66	28
Fixed plant	61	49	(12)	219	273	54
Total electrical power and plant	160	158	(2)	649	871	222
Telecoms						
Operational communications	8	15	7	27	44	17
Network	5	16	11	28	66	38
SISS	12	16	4	33	107	74
Projects and other	4	7	3	27	71	44
Non-route capital expenditure	22	7	(15)	153	65	(88)
Total telecoms	51	61	10	268	353	85
Wheeled plant and machinery						
High output	5	12	7	100	127	27
Incident response	-	1	1	-	8	8
Infrastructure monitoring	3	9	6	12	21	9
Intervention	35	25	(10)	71	130	59
Materials delivery	4	1	(3)	46	11	(35)
On track plant	11	19	8	37	73	36
Seasonal	-	6	6	4	45	41
Locomotives	-	-	-	-	-	-
Fleet support plant	-	5	5	-	24	24
Road vehicles	-	40	40	18	101	83
S&C delivery	4	-	(4)	17	-	(17)
Total wheeled plant and machinery	62	118	56	305	540	235
Information Technology						
IM delivered renewals	71	73	2	439	319	(120)
Traffic management	3	10	7	36	39	3
Total Information technology	74	83	9	475	358	(117)
Property						
MDUs/offices	10	20	10	53	76	23
Commercial estate	6	7	1	27	29	2
Corporate services	-	-	-	-	-	-
Total property	16	27	11	80	105	25
Other renewals						
Asset information strategy	24	29	5	155	186	31
Intelligent infrastructure	8	22	14	37	81	44
Faster isolations	50	36	(14)	80	149	69
LOWS	3	2	(1)	7	9	2
Small plant	5	11	6	15	46	31
Research and development	7	-	(7)	7	-	(7)
Phasing overlay	-	178	178	-	(287)	(287)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	14	-	(14)	340	-	(340)
Other	12	-	(12)	27	-	(27)
West Coast	-	-	-	-	-	-
Total other renewals	123	278	155	668	184	(484)
Total renewals	2,413	2,647	234	11,725	11,137	(588)

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

In £m 2017-18 prices unless stated

Comments:

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially 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). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is £0.6bn higher than the determination which included an assumption that £0.3bn of activity planned at an individual asset level would be deferred and includes £0.3bn of projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year with decreases across most asset categories as Network Rail seeks to invest its limited funds in the most optimal way, which has included deferring activities to the final year of the control period and with greater resources redirected to Schedule 8 and maintenance and operations activities to compensate for lower than expected improvements.

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

In £m 2017-18 prices unless stated

- (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 opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan across all categories. Whilst Plain Line is only expected to be marginally lower, High Output volumes are less than half the planned amount as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. In particular there were major efficiencies planned from High Output, which was a new delivery method being developed at the end of CP4, but these expected gains have proven to be over optimistic. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered. This was most evident in High Output where concerns over the productivity led to a planned reduction in the level of activity with total delivery around one-third of that delivered in 2016/17. Similarly, S&C delivery was about 30 per cent less than 2016/17 whilst Plain Line refurbishment decreased by approximately 15 per cent. Less drainage and fencing works were also completed.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was higher than the determination expected, mitigating some of the underspend that had occurred earlier in the control period. The higher costs were due to underlying costs being more expensive than the regulator assumed partly alleviated by deferral of programmes. Expenditure on ERTMS programmes was lower than anticipated as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. In addition, some ERTMS outputs are being delivered under the Operating strategy other capital expenditure category which helps explain the overspend in this area. 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 and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on Weaver to Wavertree, Birmingham New Street phase 6, Polmadie & Rutherglen and Huddersfield Bradford contributed nearly £100m of extra investment this year compared to 2016/17. Conversely, as the Cardiff are resignalling and East Kent Phase 2 schemes are substantially complete, expenditure this year across these two schemes were over £50m lower than the previous year.

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

In £m 2017-18 prices unless stated

- (4) Civils – expenditure in the year was lower than the regulator anticipated as higher underlying costs were mitigated by deferral of activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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 for the control period to date is higher than the determination expected with higher costs across almost all categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed over £120m of extra costs this control period – including damage to Dover seawall, Lamington viaduct, Settle-Carlisle line and Harbury landslip), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. In addition, as noted in the prior year's regulatory financial statements the level of activity in 2016/17 included some significant remediation costs following damage to the network from externalities, most notably weather damage to Dover sea wall and the Settle-Carlisle line.

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

In £m 2017-18 prices unless stated

- (5) Buildings – expenditure in the year was about half the level the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The most noticeable category of underspend was in Franchised stations as work was completed in earlier years of the control period. Investment in this category is broadly in line with the regulatory target. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's ever increasing efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. 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 (June 2017) 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 in the control period is lower than the regulatory expectation, mainly due to lower expenditure in the current year. However, the underlying position is one of increased like-for-like costs more than offset by deferral of activity. This deferral is most pronounced in Managed stations, including lower than planned renewals at Waterloo, Liverpool Lime Street, Birmingham New Street and lower train shed works in Sussex. Expenditure is lower than the previous year mainly due to lower investment at Franchised stations as more work was undertaken in earlier years of the control period compared to the regulator's assumption. In addition, a higher proportion of minor works undertaken this year were classified as renewals in line with Network Rail's cost and volume reporting policies. This meant higher Buildings renewals, but lower Buildings maintenance (as shown in Statement 8a).

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

In £m 2017-18 prices unless stated

- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. 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 scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. 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 (June 2017) 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 in the control period to date is approximately 25 per cent lower than the determination anticipated. This is partly due to delays across the portfolio and some of this shortfall is expected to be caught up in the final year of the control period. The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development alongside concentration of technical resources on the Great Western Electrification programme have contributed to the slower rate of spend. This SCADA underspend in the control period to date is anticipated to be partly reduced in the final year of the control period where additional investment is expected in this programme. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was lower than the previous year with notable contributions from Overhead line (following completion of a major project to improve resilience on the East Coast Main Line in 2016/17) and DC distribution (as Wessex LV cables and Sussex Switchgear replacement campaigns both draw to a close).
- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. A large portion of the underspend in the control period to date is expected to be caught up in the remaining year of the control period as further programmes are designed and delivered. 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 (June 2017) 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 for the control period to date is around a quarter less than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6. Expenditure is lower than the previous year, which included investment in licences and resilience projects as services are migrated from life-expired systems.

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

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. There is additional investment in the Invention category this year which includes acquisition of Rail grinder plant. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the year is slightly lower than the determination assumed but much higher in the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are lower than the regulator's assumption in the current year and the control period to date. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. Given the bespoke nature of these schemes annual expenditure can be uneven which can help explain why costs are lower in the current year compared to 2016/17 which included significant investment in new offices in Birmingham to replace leased premises and so yield operational cost savings. The lower levels of investment reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity.

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

In £m 2017-18 prices unless stated

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure was lower than the previous year as programme milestones are delivered. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- 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 higher than planned this year as Network Rail catches up some of the slower delivery in early years of the control period. This year's expenditure on the fund is higher than the previous year, as activity ramps up. Notable projects delivered on the year include work on the Brighton Main Line to improve ability to fix electrical faults and delivery of projects in the Wessex route.
- d. Small plant – expenditure continues to be lower than the regulator's determination which is consistent with the 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 purchased 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 optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway. Given the cash constraints faced by the organisation, funding has been redeployed to front line activities which have a more direct link to short term performance and safety. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

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

In £m 2017-18 prices unless stated

- e. Research and development – research and development activity in the control period to date has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has to be funded through renewals. As a result values are included for the first time this year. As there was no renewals funding in the determination this is included as underperformance 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).
- f. 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 with variances in the control period to date being reversed in the final year of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- g. CP4 rollover - following the end of the previous control period (CP4), 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. Almost all of the expenditure in the current year is on 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 more of the schemes that were rolled over from CP4 are completed.
- h. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement.

Statement 10: Other information, Great Britain

In £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs	2017-18			Cumulative			2016-17
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	220	225	5	933	942	9	225
Access charge supplement Income	(208)	(211)	(3)	(888)	(886)	2	(233)
Net (income)/cost	12	14	2	45	56	11	(8)

Schedule 8							
Performance element income	(12)	-	12	(63)	-	63	(20)
Performance element costs	231	5	(226)	706	18	(688)	214
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	219	5	(214)	643	18	(625)	194

B) Opex memorandum account	2017-18	Cumulative	2016-17
Volume incentive	(28)	(12)	(5)
Proposed income/(expenditure) to be included in the CP6 Business Rates	-	-	-
RSSB Costs	28	33	1
ORR licence fee and railway safety levy	-	-	(2)
Reporters fees	-	(3)	(2)
Other industry costs	(2)	(8)	(2)
Network Rail HS1	2	7	4
Difference in CP4 opex memo	4	12	4
Proposed Opex to be included in the CP5 expenditure allowance	-	(9)	-
Total logged up items	4	20	(2)

C) Network Rail's compliance with the limits set in the licence	Annual 2017-18	Annual Limit	Cumulative Actual	Cumulative Limit	Actual FY15 to FY16	Limit FY15 to FY16	Actual FY17 to FY19	Limit FY17 to FY19
Licence condition								
Turnover (per annum)	32	192						
Investment (any point in time)			144	288				
Specific Consents								
Property development	-	50			116	230	9	170
Property (E&W)					0	2	0	6
Property (Scotland)								

D) Net income / (costs) from alliances:	2017-18	Cumulative	2016-17
Payment from South West Trains	-	2	-
Total alliance income	-	2	-
Payment to South West Trains	-	(2)	-
Total alliance costs	-	(2)	-
Net alliance income / (cost)	-	-	-

E) Workforce information	Male				Female				Total
	Permanent		Temporary		Permanent		Temporary		
(Headcount)	Full time	Part time	Full time	Part time	Full time	Part time	Full time	Part time	
66 and over	293	29	1	-	18	5	-	-	346
61-65	1,652	48	2	1	134	12	2	-	1,851
56-60	3,763	21	4	1	324	28	3	-	4,144
51-55	4,870	7	10	-	611	28	9	-	5,535
46-50	4,976	14	9	1	736	58	12	2	5,808
41-45	3,811	7	11	-	768	116	8	3	4,724
36-40	3,401	8	16	-	885	159	16	2	4,487
31-35	3,563	7	26	-	914	95	12	-	4,617
26-30	3,363	2	40	-	852	37	30	-	4,324
21-25	2,040	3	70	-	466	7	43	2	2,631
20 and under	437	-	31	-	61	-	17	1	547
Total staff employed (Headcount)	32,169	146	220	3	5,769	545	152	10	39,014
of which:									
train drivers	-	-	-	-	-	-	-	-	-
apprentices	688	-	10	-	53	-	9	-	760
Agency staff / Contingent Labour / Consultants	-	-	960	4	-	-	236	-	1,200
of which apprentices	-	-	-	-	-	-	-	-	-

Statement 10: Other information, Great Britain - continued

In £m 2017-18 prices unless stated

(FTE)	Headcount			Full time equivalent		
	Male	Female	Total	Male	Female	Total
Board executive	12	4	16	12	4	16
Executive director / director	62	12	74	62	12	74
Bands 1	348	68	416	348	68	416
Bands 2	1,198	319	1,517	1,195	316	1,511
Bands 3	2,907	972	3,879	2,895	962	3,857
Bands 4	3,804	1,564	5,368	3,796	1,552	5,348
Signallers	4,103	318	4,421	4,101	317	4,418
Electrical control operators	161	2	163	161	2	163
Maintenance	14,979	200	15,179	14,974	195	15,169
Controllers	346	44	390	346	44	390
Bands 5-8	3,591	2,876	6,467	3,582	2,805	6,387
Other	1,027	97	1,124	1,027	97	1,124
Total permanent staff	32,538	6,476	39,014	32,499	6,374	38,873
Agency staff / Contingent Labour / Consultants	964	236	1,200	962	236	1,198
Total staff (FTE)	33,502	6,712	40,214	33,461	6,610	40,071

(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	-	-	-	-	-	-	-	-	-	-
Executive director / director	15	1	2	-	1	2	21	-	-	21
Bands 1	40	3	6	-	3	6	58	-	-	58
Bands 2	107	10	11	-	9	15	152	-	-	152
Bands 3	201	8	13	1	16	24	263	-	-	263
Bands 4	214	8	6	-	15	25	268	-	-	268
Signallers	213	12	3	68	16	34	346	-	-	346
Electrical control operators	9	-	-	4	-	2	15	-	-	15
Maintenance	503	46	9	160	37	79	834	-	-	834
Controllers	22	1	-	6	2	4	35	-	-	35
Bands 5-8	154	6	3	3	9	16	191	-	-	191
Other	7	1	1	-	-	1	10	-	-	10
Total Paybill	1,485	96	54	242	108	208	2,193	-	-	2,193
Agency staff / Contingent Labour / Consultants	-	-	-	-	-	-	-	80	-	80
Total Staff Costs	1,485	96	54	242	108	208	2,193	80	-	2,273

F) Staff costs information

	Male	Female	Total
Salary	1,263	222	1,485
Allowances	86	9	96
Performance related bonus	45	9	54
Overtime	237	6	242
Employer pension contribution	93	15	108
Employer NI contribution	181	27	208
Total Paybill	1,905	288	2,193
Agency staff / Contingent Labour / Consultants	-	-	80
Total Staff Costs	1,905	288	2,273

	Total remuneration	As a multiple of median remuneration
Highest paid director (banded)	746,450	15
Number of employees paid in excess of highest paid director	-	n/a
Median remuneration of workforce	50,041	-

Remuneration ranged from £0 to £746,450(2016-17 £0 to £797,533)

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

	2017-18	2016-17
Amounts payable to auditors		
Fees payable to the company's auditors for the audit of the company and consolidated financial statements	0.4	0.5
Fees payable to the company's auditors for other audit related services:	0.0	0.0
The audit of the company's subsidiaries*	0.2	0.1
Regulatory accounts audit and interim review	0.1	0.1
Total amounts payable to auditors	0.7	0.7

* This includes £0.11m for the audit of subsidiaries that are not performed by the Comptroller and Auditor General.

	2017-18	
	Independent Reporter	Total in Year
Expenditure with Independent Reporters	Expenditure (in year)*	Expenditure
Ove Arup & Partners**	0.2	15.9
The Nichols Group	0.6	1.2
Asset Management Consulting Ltd	0.3	0.4
Total Expenditure with Independent Reporters	1.1	17.5

* Based on invoices received in the Financial Year

** Consolidation of entities: Ove Arup & Partners Ltd and Ove Arup & Partners Scotland Ltd

Statement 10: Other information, Great Britain – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 (ie on an accounting basis) rather than the physical transfer of cash or cash equivalents.
- (8) The format of the headcount information is determined by ORR through their Regulatory Accounting Guidelines (June 2017). This requires Network Rail to include data split between "Male" and "Female". Reporting data in this binary manner is not particularly inclusive or representative of the diverse nature of the individuals employed by Network Rail.
- (9) The payroll amounts included in parts E&F are taken from Network Rail's payroll records and reflect payments made to employees in the year in line with the Regulatory Accounting Guidelines (June 2017). Therefore, the values in this statement will not be the same as the staff costs included in Network Rail's Annual Report and Accounts for the year ended 31 March 2018 which are prepared on an accruals basis and include adjustments for actuarial assessments of pension liabilities.

Statement 10: Other information, Great Britain – continued

In £m 2017-18 prices unless stated

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. The slightly lower figure this year is due to different inflation rates being used to calculate the contractual payment due by operators and the inflation rate ORR apply to their PR13 determination. The benefit in the control period to date is a result of a similar factor. Performance element costs are broadly in line with the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance. As the level of renewals activity decreased by more than the decrease in Schedule 4 costs financial underperformance has been recognised this year (refer to Statement 5a). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are lower than the regulatory assumption. This is a combination of undertaking less renewals activity partially offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Costs are lower than the previous year which is due to a combination of lower delivery of those assets that require possessions (notably Track - Plain line and Signalling - Full and partial conventional resignalling), offset by a higher average possession cost per renewals delivery. In addition, costs this year included the impact of Storm Emma in February which resulted in number of services being cancelled in light of the snow.

Statement 10: Other information, Great Britain – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident has been high. Extra focus has been put on improving this metric as part of the company's strategy and improvements have been made this year but there is still potential for improvement. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included derailments at Waterloo and Paddington stations, lineside fires at Harrow and South Hampstead as well as storm damage in June 2017. Also, the issue of network trespass was a particular challenge this year with the London North West route south of Rugby particularly effected. Whilst some positive steps are being taken (such as investment in higher fencing and other technology to minimise access, increased security patrols at known hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. When adjusting for the change in the benchmarks, costs this year are consistent with the costs in the previous year. Whilst 2016/17 was impacted by a smaller number of lower value one-off weather events, such as flash-floods in London (June 2016) and storm Doris (February 2017), the current year was dominated by the impact of a single weather event, storm Emma.
- (3) The opex memorandum is broadly neutral for this year which is primarily due to changes in the Business Rates that Network Rail has had to endure this year compared to the regulatory assumption offset by penalties under the Volume Incentive mechanism (refer to Statement 12). Well-publicised increases in Business Rates came into effect from April 2017 which has contributed to the value of the opex memorandum compared to the previous year and is expected to impact the for 2018/19 as well. The opex memorandum this year also includes penalties under the Volume Incentive mechanism as fewer passenger and freight growth has not matched the regulatory target. There is also income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be 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. The control period to date balance also includes an adjustment for differences 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 2017-18 prices unless stated

Service	Staff	Agency	Contractors & consultants	2017-18			Total cost
				Materials	Plant	Overheads	
Operations	-	-	-	-	-	-	-
Maintenance	25	1	-	-	-	5	31
Renewals	-	-	-	-	-	-	-
Total	25	1	-	-	-	6	31

Service	Staff	Agency	Contractors & consultants	Cumulative			Total cost
				Materials	Plant	Overheads	
Operations	-	-	-	-	-	-	-
Maintenance	92	2	-	-	-	26	120
Renewals	-	-	-	-	-	-	-
Total	92	2	-	-	-	26	120

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

In £m 2017-18 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. This reflects the agreement introduced at the start of HS1's new quinquennial control period which commenced 1 April 2015.

Statement 12: Volume incentives, Great Britain

In £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(36)	(7)	308	309	1.3%	1.56	pence per passenger train mile
Passenger farebox (millions)	(46)	(9)	9,728	9,769	3.3%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(34)	(7)	20	21	2.3%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	(27)	(5)	21,990	23,328	2.9%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	(143)	(28)					

The cumulative volume incentive is determined by the following calculation:

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

Where:

A_t = Actual in year quantity

B = 2017-18 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Great Britain – continued

In £m 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result. As a result, the Volume incentive measure is now negative for the control period to date. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of the continued structural decline in the freight market. In addition, passenger growth has not been able to keep up with the ambitious increases assumed in the determination this year.

	Passenger train miles	Passenger farebox	Freight train miles	Freight gross tonne miles	Total
2014/15	4	6	-	-	10
2015/16	5	9	(2)	(1)	11
2016/17	(1)	3	(4)	(3)	(5)
2017/18	(7)	(11)	(7)	(5)	(30)
Total	1	7	(13)	(9)	(14)

Statement 12: Volume incentives, Great Britain – continued

In £m 2017-18 prices unless stated

- (2) Passenger train miles in the current year has been lower than the ORR's expectation. In fact, passenger train miles were slightly lower than the previous year. Disruptive possessions required to deliver Network Rail's ambitious enhancements portfolio resulted in closures of parts of the line, including the widely-publicised reduction in services to Waterloo in Summer 2017, as well as the continuation of Northern Programmes, Crossrail and Great Western Electrification. The snow brought by Storm Emma in February also resulted in a number of cancellations arising from safety concerns. These factors were partly offset by notably traffic growth in Sussex. As noted in last year's Regulatory Financial Statements, passengers in this route suffered from the effects of industrial action last year. Despite the stalling of Passenger train miles in the past two years, marginal outperformance has been generated in the control period to date due to higher than anticipated growth in the early years of the control period. This has resulted in financial outperformance being recognised (refer to Statement 5a).
- (3) Passenger farebox in the year was lower than the target, reflecting growth in passenger numbers being lower than the regulatory assumption. For the first three years of the control period this had been favourable due to increased train usage amongst the public so the control period to date position is currently favourable. Passenger farebox information is supplied by ORR.
- (4) Whilst there has been some growth in freight train miles this control period it has not been at the rate that the regulator expected and this leaves Network Rail facing a penalty under this mechanism. The determination assumed that growth during the control period to date would have been over 12 per cent. However, the deterioration in 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 in recent years 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 requires. 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 decreased slightly compared to the previous year by around 1.0 per cent. As noted in the previous year's regulatory financial statements, traffic was already significantly below the regulatory target, so the decline in the current year compounds the underperformance reported last year. The slower rates of growth are similar to the reasons noted above. Again, The London North East route has the largest gap to target due to growth assumptions for biomass transport to the Drax power station made at the time of the determination which have proved to be overoptimistic.

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC £m	Total AFV unit	Unit Cost £k/unit	unit	£m	Total AFC £m	Total AFV unit	Unit Cost £k/unit
Track	Conventional plain line Renewal	km	453	262	568	1,076	528	537	349	650	1,171	555
	High Output Renewal	km	102	88	254	314	809	276	201	248	373	665
	Plain line Refurbishment	km	329	52	118	836	141	372	59	117	767	153
	S&C Renewal/Refurbishment	point ends	711	127	269	1,795	150	1,023	163	312	1,919	163
	Track Drainage	lm	145,619	33	89	345,292	0	138,342	37	80	287,109	0
	Fencing	km	465	16	95	2,330	41	691	29	102	2,716	38
	Slab Track	km	1	4	10	1	10,000	2	20	27	2	13,500
	Off track	km/No.	204	13	39	993	39	578	18	39	1,009	39
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	595	1,442	-	-	-	876	1,575	-	-
Signalling	Full Conventional Resignalling	SEU	207	27	122	350	349	585	77	395	1,022	386
	Modular Resignalling	SEU	95	19	33	95	347	38	-	33	57	579
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	151	38	86	303	284	379	77	305	681	448
	Targeted Component Renewal	SEU	13	3	4	13	308	27	5	7	41	171
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	14	20	43	17	2,529	20	9	26	27	963
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	107	288	-	-	-	168	766	-	-
Civils	Underbridges	m ²	74,287	91	264	156,396	2	116,178	200	463	183,753	3
	Overbridges (incl BG3)	m ²	12,837	26	64	16,986	4	15,463	37	72	16,323	4
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	12,250	12	29	41,007	1	19,573	14	33	42,324	1
	Culverts	m ²	2,385	6	13	4,997	3	4,174	11	24	5,070	5
	Footbridges	m ²	2,028	7	21	4,531	5	2,748	7	20	3,909	5
	Coastal & Estuarial Defences	m	5,857	4	9	7,101	1	2,763	5	15	2,763	5
	Retaining Walls	m ²	2,385	7	10	2,599	4	14,721	9	11	14,791	1
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	5,292	75	194	10,323	19	3,415	88	240	6,918	35
	EW Drainage	m	117,085	13	27	181,067	0	125,756	15	29	168,631	0
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	241	631	-	-	-	386	907	-	-
Buildings	Buildings (MS)	m ²	854	-	1	956	1	8,214	-	2	8,214	0
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	1,581	-	1	2,108	0
	Train sheds (MS)	m ²	2,826	1	1	10,413	0	11,321	1	4	14,929	0
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	73,725	5	8	195,951	0	11,169	2	6	16,624	0
	Buildings (FS)	m ²	9,578	3	5	11,242	0	13,473	5	12	16,577	1
	Platforms (FS)	m ²	7,889	3	7	12,455	1	32,825	10	22	40,806	1
	Canopies (FS)	m ²	2,000	2	8	12,079	1	35,600	8	30	80,638	0
	Train sheds (FS)	m ²	10,837	3	13	10,837	1	1,500	-	-	1,500	-
	Footbridges (FS)	m ²	1,868	4	18	5,698	3	2,054	11	24	4,446	5
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		47,538	3	10	88,274	0	94,619	5	13	163,556	0
	Light Maintenance Depots	m ²	81,305	8	11	88,408	0	79,484	6	22	107,475	0
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	9,475	1	6	26,402	0	13,967	3	12	27,926	0
	MDU Buildings	m ²	22,786	2	7	39,600	0	8,529	1	4	10,607	0
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	35	95	-	-	-	52	152	-	-

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume unit	Cost £m	A Total AFC £m	B Total AFV unit	C = A ÷ B Unit Cost £k/unit	Volume unit	Cost £m	A Total AFC £m	B Total AFV unit	C = A ÷ B Unit Cost £k/unit
Electrical power and fixed plant	Wiring	Wire runs	48	12	60	169	355	63	18	71	170	418
	Mid-life refurbishment	Wire runs	-	-	-	-	-	5	1	9	5	1,800
	Structure renewals	No.	232	7	36	874	41	285	10	41	817	50
	Other OLE	-	-	-	-	-	-	-	-	-	-	-
	OLE abandonments	-	-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	53	5	36	202	178	41	9	45	168	268
	HV Switchgear Renewal AC	No.	-	-	-	-	-	7	-	1	18	56
	HV Cables AC	-	-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	12	-	2	24	83
	Booster Transformers AC	-	-	-	-	-	-	-	-	-	-	-
	Other AC	-	-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	22	3	9	35	257	22	1	5	28	179
	HV cables DC	km	1	-	1	4	250	12	3	12	18	667
	LV cables DC	km	38	5	39	128	305	33	14	42	77	545
	Transformer Rectifiers DC	-	1	-	1	1	1,000	-	-	-	-	-
	LV switchgear renewal DC	No.	1	-	-	1	-	37	5	19	96	198
	Protection Relays DC	No.	22	-	2	64	31	61	2	5	197	25
	Other DC	-	-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	1	-	2	2	1,000
	Energy efficiency	-	-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity	-	-	-	-	-	-	-	-	-	-	-
	Other Electrical Power	-	-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	128	2	11	265	42	76	1	8	92	87
	Signalling Power Cables	km	216	9	70	431	162	53	6	8	53	151
	Signalling Supply Points	No.	10	1	6	31	194	14	3	27	56	482
	Other Fixed Plant	-	-	-	-	-	-	-	-	-	-	-
Total			-	44	271	-	-	-	73	297	-	-
Telecoms	Customer Information Systems	No.	509	1	6	983	6	23	-	1	23	43
	Public Address	No.	1,325	-	4	3,096	1	90	-	-	105	-
	CCTV	No.	497	-	2	539	4	339	2	2	365	5
	Other Surveillance	No.	31	2	4	164	24	27	-	-	560	-
	PABX Concentrator	No. lines	4,269	1	2	12,275	0	6,116	1	1	7,204	0
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	14	-	-	30	-
	DOO CCTV	No.	17	1	1	17	59	36	2	8	151	53
	DOO Mirrors	-	-	-	-	-	-	-	-	-	-	-
	PETS	No.	8	-	1	8	125	11	-	1	34	29
	HMI Small	-	5	-	-	5	-	-	-	-	-	-
	HMI Large	No.	30	-	1	101	10	60	-	-	695	-
	Radio	-	-	-	-	-	-	-	-	-	-	-
	Power	-	49	-	-	49	-	-	-	-	-	-
	Other comms	-	-	-	-	-	-	-	-	-	-	-
	Network	No.	21	1	2	44	45	36	2	14	57	246
	Projects and Other	-	-	-	-	-	-	-	-	-	-	-
	Non Route capex	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	6	23	-	-	-	7	27	-	-

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

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track - The High Output Renewal volumes have massively decreased compared to the prior year and this heavily affects the unit cost for high output work due to the length of time spent preparing and transporting the high output machine. In 2016-17 the greater number of volumes delivered allows the fixed costs to be spread across the projects at a lower unit rate. Volumes delivered in the year are significantly lower than last year but the unit cost calculation takes into account volumes delivered in prior years and result in a less significant drop in volumes contributing to the unit cost. In S&C the number of volumes has decreased by a third compared to the prior year. However the jobs that were done were less expensive than the prior year which has reduced the unit costs. In Slab Track the volumes are so small (1 in the current year compared to 2 previously) the unit cost swings massively and therefore is not a useful means of comparison.

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

In £m 2017-18 prices unless stated

- (3) Signalling – In Full Conventional Re-signalling there was only 2 projects which delivered significant volumes in the current year. The one with the greater volumes were Motherwell North which had a low unit cost so has a significant effect on the overall unit cost. The unit cost therefore was lower than the prior year when the main volumes were carried out under the Cardiff Area Signalling Renewal scheme which had major overspends. In Modular Re-signalling there was only one project delivering volumes in the past two years. The North Wales Coast project in the current year had a lower unit rate than the East Nottingham one in the prior year. The lack of other projects means it is hard to draw any real conclusions from the unit costs of these projects as there are a variety of factors that can affect different projects. Therefore the unit cost measure is not useful to assess the performance of the two projects. The unit costs in the Partial Conventional category have been dominated by two major projects; the Bristol Area scheme in 2016-17 which had a high unit rate, and the Motherwell North scheme in 2017-18 which had a relatively lower unit rate. These two large projects cause the large variance in this category. Level Crossings are also a bespoke job type with similarities between projects being random. The level of work required and cost can vary depending on the type of level crossing as well the possession charges which depend on track usage in that area. Therefore the increase in unit cost from prior year holds little information relating to over/under performance.
- (4) Civils – In Coastal and Estuarial Defences there has been a large drop in the unit rate in the current financial year. This is due to the emergency repair works that took place at Dover in the prior year. The nature of emergency work is more expensive as they are reactive works with the priority being on repairing the wall whilst cost considerations are secondary. This project brought the average unit cost up despite other projects delivering at a lower, standard unit cost. In Earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore it is difficult to do any analysis on the category as a whole.
- (5) Electrical Power and Fixed Plant – There has been a dramatic fall in the unit cost for HV Cables DC compared to the prior year. The reason is that in the prior year there was one dominant project 'Kent CP5 HV Feeder Renewals'. This project had a high unit rate and so caused a high unit rate overall in this category. In the current financial year there was only one project 'Liverpool Cable Renewal' and this was simpler and had much lower rate than the Kent project. There were only a couple of projects delivering Points Heaters in 2016-17 compared to many more in 2017-18. Therefore it is difficult to compare the unit cost between the two years. In the current year there were many more volumes which reduce the unit cost. The Signalling Supply Point unit costs are massively decreased compared to the prior year. Once again there were only a small number of jobs in this category which can lead to big swings in the variance. In the prior year there was an expensive job in London North East compared to the main one in London North West which was a much cheaper scheme.
- (6) Telecoms – The number of Customer Information System volumes delivered in the year has increased from 23 in 2016/17 to 509 in 2017/18. Therefore it is difficult to compare unit costs due the large variance in sample sizes. Due to the large increase in volumes between years there is a marked drop in the unit rate. In Network the unit cost in the prior year was heavily skewed by an expensive job in London North West (WC GSM-R and Tx Renewal). This was a complicated large job and had a relatively high unit rate. The unit cost in the current year is primarily influenced by a simpler and cheaper job in Wales (FTN Rectifier) therefore the unit cost has massively decreased from one year to the next.

Statement 1: Summary regulatory financial performance, England & Wales

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	4,054	4,104	(50)	16,204	16,144	60	4,068
Fixed Income	362	345	17	1,341	1,264	77	310
Variable Income	1,058	1,181	(123)	4,285	4,483	(198)	1,073
Other Single Till Income	941	957	(16)	3,401	3,515	(114)	857
Opex memorandum account	-	-	-	16	-	16	(4)
Total Income	6,415	6,587	(172)	25,247	25,406	(159)	6,304
Operating expenditure							
Network operations	552	386	(166)	2,076	1,641	(435)	529
Support costs	355	408	53	1,434	1,752	318	313
Traction electricity, industry costs and rates	594	675	81	2,265	2,411	146	552
Network maintenance	1,256	1,010	(246)	4,866	4,245	(621)	1,247
Schedule 4	205	200	(5)	836	834	(2)	184
Schedule 8	198	4	(194)	618	16	(602)	194
Total operating expenditure	3,160	2,683	(477)	12,095	10,899	(1,196)	3,019
Capital expenditure							
Renewals	2,061	2,372	311	10,385	9,884	(501)	2,509
PR13 enhancement expenditure	2,800	3,344	544	11,532	12,689	1,157	3,186
Non PR13 enhancement expenditure	151	-	(151)	583	-	(583)	58
Total capital expenditure	5,012	5,716	704	22,500	22,573	73	5,753
Other expenditure							
Financing costs	2,132	2,031	(101)	6,479	6,856	377	1,699
Corporation tax (received)/paid	-	-	-	(2)	4	6	2
Total other expenditure	2,132	2,031	(101)	6,477	6,860	383	1,701
Total expenditure	10,304	10,430	126	41,072	40,332	(740)	10,473

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

In £m 2017-18 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 in the other statements of this document.
- (2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly higher than the determination due to Network Rail providing additional services to operators partly offset by differences between inflation rates used to calculate fixed income payable by operators and the rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these discrepancies which, along with additional services provided throughout the control period has delivered the favourable income in the control period to date. This is discussed in more detail in Statement 6a. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target with the lower electricity being the overwhelming contributor. Income is lower than the previous year mainly due to lower Schedule 4 Access Charge Supplements. This type of income is contractually set through the determination so the decrease is in line with the regulator's plans. 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 assumption mainly due to lower freight income, partly offset by additional services offered to operators. Income for the control period to date is lower than expected, mainly due to changes in the way certain capital programmes are funded, which is offset by a corresponding saving in financing costs. Excluding these items, income is higher than the determination as a result of station and depot facilities provided to operators offsetting lower freight income. Income is higher than the previous year due to changes in the ways that projects are financed, which results in higher interest costs. These variances are 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 (June 2017). This year negative amounts in the volume incentive are offset by the variance in business rates. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.

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

In £m 2017-18 prices unless stated

- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are higher than the previous year which, as noted in last year's Regulatory financial statements, benefited from an actuarial reassessment of insurance liabilities. Support costs are discussed 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 (offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates and British Transport Police costs. The savings made in the control period to date are also due to these factors. Costs are higher than the previous year as a result of increased Business rates following a widely-publicised increase in business rates across the country. Traction electricity, industry costs are discussed 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. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are broadly in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are broadly similar to the determination as higher average costs of possessions has been alleviated by deferral of renewals activity requiring network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs this year are broadly in line with the previous year which reflects lower possession productivity, higher rates payable to operators and the disruptive impact of Storm Emma partly offset by reductions in renewals activities requiring possessions. Schedule 4 costs are discussed 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. Increased network traffic, infrastructure failures and some one-off incidents, notably the snow that Storm Emma brought, contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year mainly due to ever-tightening benchmarks. Neutralising for the change in benchmarks, year on year costs are broadly in line with 2016/17. Schedule 8 costs are discussed in more detail in Statement 10.

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

In £m 2017-18 prices unless stated

- (13) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to net deferrals of activity partially offset by higher underlying costs (notably in Track, Signalling and Civils). Renewals are lower than the previous year with decreases across almost all categories as Network Rail seeks to invest its limited funds in the most optimal way. As the regulator expected more renewals work was undertaken in earlier years of the control period. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes. This is partly driven by prioritisation of investment in core activities as well as reprofiling of expenditure between years. The control period to date position is caused by similar factors. The current year also has lower expenditure as a result of DfT transferring £300m of Network Rail funded programmes to DfT funded. Investment is lower than the previous year reflecting the net changes in delivery across a number of programmes but mostly due to the aforementioned £300m switch in funding. These variances are set out in more detail in Statement 3.
- (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 so the higher investment in the current year and the control period to date is axiomatic. Expenditure is higher than the previous year following additional projects requested by DfT to improve the railway network. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are slightly higher than the determination due to higher market rates and inflation than the regulator predicted. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accruing debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

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

In £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	51,482	49,445	2,037
Indexation to 2016-17 prices	4,172	4,006	166
Opening RAB for the year (2016-17 prices)	55,654	53,451	2,203
Indexation for the year	2,159	2,073	86
Opening RAB (2017-18 prices)	57,813	55,524	2,289
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	1,853	2,372	(519)
PR13 enhancements	2,746	2,826	(80)
Non-PR13 enhancements	164	-	164
Total enhancements	2,910	2,826	84
Amortisation	(2,489)	(2,489)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2018	60,087	58,233	1,854

RAB Regulatory financial position - cumulative, England & Wales

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	46,746	51,182	54,706	57,813	46,746
Adjustments for the actual capital expenditure outturn in CP4	1,330	-	-	-	1,330
Renewals	2,677	2,712	2,270	1,853	9,512
PR13 enhancements	2,609	2,872	3,142	2,746	11,369
Non-PR13 enhancements	112	227	83	164	586
Total enhancements	2,721	3,099	3,225	2,910	11,955
Amortisation	(2,287)	(2,287)	(2,388)	(2,489)	(9,451)
Adjustments for under-delivery of regulatory outputs	(5)	-	-	-	(5)
Closing RAB	51,182	54,706	57,813	60,087	60,087

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

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (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 the first two years of the control period 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 efficient overspends (the value of which cannot all be logged up to the RAB) more than offset by re-profiling activity to the final year of the control period and beyond. 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 slightly lower than the regulator assumed Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB. There are significant contributions from Crossrail, Thameslink and Northern Hub projects.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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. The amounts in the current year were lower than in earlier years of the control period. This is largely due to funding constraints faced by the organisation following a decision by Office of National Statistics to reclassify Network Rail as a Central Government Body which has meant Network Rail can only raise new finance directly from government within the terms of a capped loan for the control period. Therefore, even though there may be sufficiently attractive business cases put forward against this funding category, the lack of short-term capital compromises Network Rail's ability to deliver them.

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

In £m 2017-18 prices unless stated

- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 (Input Output Price Index) 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 and 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 & Wales

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	2,517	2,524	2,470	2,372	9,883
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	235	-	-	-	235
Capitalised financing on CP4 deferrals	5	10	11	12	38
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (renewals)	2,757	2,534	2,481	2,384	10,156
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(688)	(556)	(927)	(1,112)	(3,283)
Capitalised financing on acceleration / (deferrals) of expenditure	(15)	(43)	(76)	(124)	(258)
Adjustments for efficient overspend	752	934	940	800	3,426
Capitalised financing on efficient overspend	16	53	96	138	303
25% retention of efficient overspend	(188)	(234)	(235)	(201)	(858)
Capitalised financing on efficient overspend 25% retention	(4)	(13)	(24)	(34)	(75)
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	58	39	12	(5)	104
Capitalised financing on efficient overspend through spend to save framework	1	4	5	(2)	8
Retention of efficient overspend through spend to save framework	(11)	(5)	(1)	8	(9)
Capitalised financing on efficient overspend through spend to save framework retention	-	(1)	(1)	1	(1)
Other adjustments	(1)	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	2,677	2,712	2,270	1,853	9,512
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	(3)	(11)	(11)	9	(16)
Adjustment for 25% retention of efficient overspend	200	240	238	193	871
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	-	-	12	6	18
Total actual renewals expenditure (see statement 9)	2,874	2,941	2,509	2,061	10,385

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

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	2,615	2,845	2,768	2,826	11,054
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	210	(210)	-	-	-
Capitalised financing on CP4 deferrals	4	5	-	-	9
Baseline adjustments	-	286	944	518	1,748
Capitalised financing on Baseline adjustments	-	6	33	66	105
Adjustments to DfT funding	(166)	-	-	-	(166)
Capitalised financing on adjustments to DfT funding	(4)	(7)	(7)	(8)	(26)
Other adjustments	27	26	-	-	53
Capitalised financing on other adjustments	1	2	2	2	7
Adjusted PR13 determination (enhancements)	2,687	2,953	3,740	3,404	12,784
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(199)	(174)	(797)	(836)	(2,006)
Capitalised financing on acceleration / (deferrals) of expenditure	(4)	(13)	(33)	(70)	(120)
Adjustments for efficient overspend	77	(30)	94	107	248
Capitalised financing on efficient overspend	2	3	4	9	18
25% retention of efficient overspend	(19)	7	(24)	(26)	(62)
Capitalised financing of 25% efficient overspend	-	(1)	(1)	(2)	(4)
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	71	168	177	185	601
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	(11)	(42)	(29)	(43)	(125)
Capitalised financing relating to projects with tailored protocols or fixed price	1	5	11	18	35
Adjustments for efficient overspend through spend to save framework	5	(5)	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	1	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	2,609	2,872	3,142	2,746	11,369
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	127	218	67	151	563
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(17)	-	-	(8)	(25)
Capitalised financing on non-PR13 enhancements expenditure	2	9	16	21	48
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Other adjustments	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	112	227	83	164	586
Total enhancements (added to the RAB - see statement 2a)	2,721	3,099	3,225	2,910	11,955
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	(2)	(10)	(24)	(36)	(72)
Adjustment for 25% retention of efficient overspend	48	34	53	77	212
Other adjustments	19	10	(9)	-	20
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	503	314	446	735	1,998
Other adjustments	-	-	-	-	-
Total actual enhancement expenditure (see statement 3)	3,289	3,447	3,691	3,686	14,113

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

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening three years of the control period, 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 (June 2017), 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 June 2017) 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 with notable contributions from Track, Signalling and Civils projects. 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.

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

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure. The reduction reported in the current year reflects decreased planned expenditure in this category across the whole control period compared to planned levels of investment included in Business Plans earlier in the control period.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. The increase reported in the current year reflects the reduced expenditure on such schemes compared to earlier plans as noted above.
- (9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.
- (10) 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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, the appropriate level of funding was reassessed and is now included in the Baseline adjustments line for England & Wales programmes.
- (11) 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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes relating to programmes with their own protocol (such as Thameslink and Crossrail).

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

In £m 2017-18 prices unless stated

- (12) 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. In addition, in the current year a further capital grant of £300m was received from the DfT as a contribution to Network Rail's enhancement programme. This has resulted in a reduction in the RAB with a corresponding increase in PAYGO enhancement expenditure.
- (13) Enhancements – Other adjustments – the amounts in the opening two years of the control period 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.
- (14) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programmes have been re-profiled into CP6 and beyond.
- (15) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), 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 June 2017) 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, with a notable contribution from Northern Hub. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (16) 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.
- (17) 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 are eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (18) 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, England & Wales – continued

In £m 2017-18 prices unless stated

- (19) 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 (June 2017) 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 was reversed 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. No expenditure in this category occurred in the current year.
- (20) Enhancements – retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating additional income.
- (21) 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.
- (22) Non-PR13 enhancements – Other adjustments (including discretionary investment) – this category covers expenditure where investment is not eligible for RAB addition. The current year includes part of the investment on the Gospel Oak to Barking electrification programme which is retained by Network Rail as well as a number of smaller discretionary schemes over and above the Hendy projects. Expenditure in earlier years of the control period 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 & Wales

In £m 2017-18 prices unless stated

	2017-18			2016-17		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	22	63	41	78	143	65
Stations - National Station Improvement Programme (NSIP)	13	24	11	55	80	25
Stations - Access for All (AfA)	11	(1)	(12)	105	98	(7)
Development	6	1	(5)	122	143	21
Level crossing safety	25	21	(4)	71	100	29
Passenger journey improvement	16	54	38	32	119	87
The strategic rail freight network	23	59	36	131	218	87
Total funds	116	221	105	594	901	307
Committed projects						
Thameslink	391	359	(32)	1,862	1,691	(171)
Crossrail	352	219	(133)	1,983	1,649	(334)
GW electrification (Paddington to Cardiff)	556	709	153	2,161	2,344	183
Adjustment for DfT funding - GW electrification	-	-	-	(79)	(79)	-
Bridgend to Swansea electrification	6	(10)	(16)	21	20	(1)
East West Rail (committed scheme)	39	66	27	287	256	(31)
Northern Hub	556	339	(217)	1,350	1,307	(43)
IEP Programme	129	131	2	341	409	68
North Trans Pennine Electrification East	81	188	107	159	323	164
North Trans Pennine Electrification West	-	-	-	-	-	-
NW Electrification	-	-	-	(3)	-	3
Reading station area redevelopment	(18)	-	18	112	169	57
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(88)	(88)	-
Stafford area improvement scheme	12	15	3	181	175	(6)
West coast power supply upgrade	37	7	(30)	201	186	(15)
Total committed projects	2,141	2,023	(118)	8,488	8,362	(126)
Named schemes						
The Electric Spine:						
MML electrification	121	274	153	286	465	179
Derby station area remodelling	35	53	18	56	75	19
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	2	2	-	8	8
Electric spine (DfT SoFA amount)	88	99	11	219	310	91
Total Electric Spine projects	244	428	184	561	858	297
Thames Valley:						
Acton to Willesden electrification (WCML)	-	-	-	1	3	2
Thames Valley branches	2	(7)	(9)	4	2	(2)
Oxford Station area capacity and station enlargement	26	44	18	50	81	31
Total Thames Valley projects	28	37	9	55	86	31
Midlands						
Walsall to Rugeley electrification	41	10	(31)	90	77	(13)
Total Midlands Projects	41	10	(31)	90	77	(13)
Yorkshire						
Huddersfield station capacity improvement	-	(1)	(1)	(1)	-	1
Total Yorkshire Projects	-	(1)	(1)	(1)	-	1
Airports & Ports:						
Western access to London Heathrow Airport	-	-	-	7	8	1
Service Improvements in the Ely Area	-	-	-	1	2	1
Redhill additional platform	33	33	-	58	57	(1)
Total airports & Ports	33	33	-	66	67	1

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

In £m 2017-18 prices unless stated

	2017-18			2016-17		
	Actual	Baseline	Difference	Actual	Baseline	Difference
South East						
Waterloo	186	151	(35)	369	307	(62)
Total South East	186	151	(35)	369	307	(62)
West						
Dr Days to Filton Abbey Wood capacity improvements	30	44	14	60	76	16
Bristol Temple Meads passenger capacity	-	6	6	2	9	7
Total West	30	50	20	62	85	23
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	(2)	(2)	-	-	-
South London HV traction power upgrade	1	6	5	3	9	6
West Anglia main line capacity increase	29	37	8	52	68	16
Bow Junction upgrade with Chelmsford & Wickford turnbacks	-	5	5	4	9	5
West of England DMU capability works	14	14	-	17	16	(1)
East Kent resignalling phase 2	-	-	-	55	57	2
Stevenage and Gordon Hill turnbacks	-	3	3	3	8	5
Reading, Ascot to London Waterloo train lengthening	5	4	(1)	31	38	7
Uckfield line train lengthening	-	(1)	(1)	20	20	-
MML long distance high speed services train lengthening	2	7	5	4	19	15
Route gauge Clearance for different EMUs	7	25	18	18	41	23
Bradford Mill Lane capacity	-	2	2	-	4	4
Leeds station capacity	-	(2)	(2)	-	-	-
Chiltern Main Line Train Lengthening	-	3	3	17	16	(1)
North West train lengthening	2	12	10	2	22	20
New Cross Grid	8	-	(8)	14	16	2
Anglia traction power supply upgrade	14	19	5	27	44	17
Sussex traction power supply upgrade	50	67	17	83	104	21
Wessex traction power supply upgrade	4	6	2	45	50	5
London Victoria station capacity improvements	-	-	-	1	1	-
Kent traction power supply upgrade	11	12	1	30	36	6
LNE routes traction power supply upgrade	6	24	18	7	33	26
Total HLOS capacity metric schemes	153	241	88	433	611	178
Third party funded						
Welsh Valley lines electrification	-	-	-	2	3	1
Total Third Party funded	-	-	-	2	3	1

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

In £m 2017-18 prices unless stated

	2017-18			2016-17		
	Actual	Baseline	Difference	Actual	Baseline	Difference
CP4 Projects Rollovers						
Birmingham New St Gateway	5	(19)	(24)	191	213	22
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	11	6	(5)	58	64	6
Redditch Branch Enhancement	-	-	-	18	18	-
Kent power supply upgrade (CP4)	2	(7)	(9)	66	68	2
Barry - Cardiff Queen Street corridor	-	-	-	13	14	1
Capacity relief to the ECML	3	1	(2)	87	82	(5)
North Doncaster Chord	-	-	-	-	-	-
East Coast mainline overhead electrification	-	-	-	-	-	-
DC Regeneration	-	-	-	2	1	(1)
Package 4, Gravesend Train Lengthening	-	-	-	-	(1)	(1)
Package 7,10 Car Park West Suburban Railway	-	-	-	16	17	1
Wessex Automatic Selective Door Opening	-	-	-	1	2	1
Battersea Park Station Platform Lengthening	-	-	-	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	6	2
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
MML linespeed improvements	-	2	2	27	24	(3)
Westerleigh Junction - Barnt Green linespeed increase	-	3	3	-	6	6
Station Security	1	-	(1)	1	-	(1)
Other CP4 Rollover	1	-	(1)	6	-	(6)
Total CP4 rollovers	23	(14)	(37)	491	515	24
Other projects						
Seven day railway projects	-	6	6	52	55	3
ERTMS Cab fitment	2	(8)	(10)	31	74	43
R&D allowance	-	-	-	13	16	3
Depots and stabling	59	128	69	189	358	169
Income generating property schemes	44	39	(5)	337	314	(23)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	(300)	-	300	(300)	-	300
Total other projects	(195)	165	360	322	817	495
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	2,800	3,344	544	11,532	12,689	1,157
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	-	-	-	25	-	(25)
DNOs clearance work	-	-	-	21	-	(21)
OCSLNE SCPF Newcastle Station	-	-	-	20	-	(20)
Tram Train Project	15	-	(15)	8	-	(8)
NW Electrification	(1)	-	1	98	-	(98)
W001cReadingIndFeeder	29	-	(29)	53	-	(53)
Ilkestone New Station	-	-	-	6	-	(6)
Cambridge North Stn (Non Cash)	6	-	(6)	6	-	(6)
Crossrail	17	-	(17)	17	-	(17)
G001 Gospel O2B OLE (Non Cash)	39	-	(39)	39	-	(39)
Other government sponsored schemes	39	-	(39)	69	-	(69)
Total Government sponsored schemes	144	-	(144)	362	-	(362)
Network Rail spend to save schemes						
Mountfield	-	-	-	33	-	(33)
Other spend to save schemes	-	-	-	-	-	-
Total Network Rail spend to save schemes	-	-	-	33	-	(33)
East West Rail (committed scheme)	-	-	-	148	-	(148)
Other	(1)	-	1	11	-	(11)
Total Schemes promoted by third parties	(1)	-	1	159	-	(159)
Discretionary Investment	8	-	(8)	29	-	(29)
Total non PR13 enhancement expenditure	151	-	(151)	583	-	(583)
Total Network Rail funded enhancements (see Statement 1)	2,951	3,344	393	12,115	12,689	574
Third Party PAYG	735	-	(735)	1,997	-	(1,997)
Total enhancements (see statement 2b)	3,686	3,344	(342)	14,112	12,689	(1,423)

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

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.
- (2) The baseline for projects that are not subject to the Hendy review, such as Thameslink and Crossrail enhancements programmes, have been updated to reflect the latest level of funding agreed with the regulator. This will incorporate changes arising through 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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £2,951m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£3,686m) less the PAYGO schemes funded by third parties (£735m).
- (5) Investment expenditure this year was broadly in line with the previous year as delivery of the enhancement portfolio continues to make significant progress.

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

In £m 2017-18 prices unless stated

(6) 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 review) 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. Overall, expenditure in this category this year was lower than the baseline, continuing the trend of earlier years of the control period. Noteworthy variances between expenditure in the year and the baseline are set out below:

- a. East Coast connectivity – this fund is used to improve capacity and reduce journey times on the East Coast main line. Expenditure in the current year is lower than the baseline as some of the activity on this fund has now been deferred from the current control period to CP6. This includes projects at Werrington (grade separated access to the GN/ GE line) and York North throat.
- b. Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Whilst expenditure is less than the baseline in the current year and the control period to date the final year of the control period is expected to have increased investment so that overall costs will match the baseline by the end of CP5. Notable projects this year included Bognor Regis, Stood and Eastbourne stations.
- 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. Investment in the control period to date has been higher than planned as additional schemes have been identified. This year included delivery of important projects at Finsbury Park, Westerton and Burnham stations. Minimal expenditure is planned for the final year of the control period as designated funds have now been utilised.
- d. Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is in line with the baseline but is lower than in the control period to date due to lower than expected investment in 2015/16. This underspend is anticipated to be recovered next year.
- e. Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year was in broadly consistent with the Hendy baseline but is still behind for the control period to date largely as a result of contractor disputes leading to delay in delivery in earlier years. Slower delivery has also been caused by local council planning issues on certain projects, delays to coincide delivery with other projects (including non-rail items) and difficulties acquiring required land. Expenditure in the final year of the control period is expected to be higher than the baseline, bringing the total CP5 investment in line with the Hendy plan.
- 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. Whilst expenditure was higher than the previous year it was significantly lower than the baseline this year and in the control period to date as work has been deferred into future control periods. Fewer schemes have been identified this control period than expected that meet the criteria for investing in the fund.

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

In £m 2017-18 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. Although expenditure is higher than the previous year it is less than the baseline this year and the control period to date but is largely planned to be caught up in the final year of the control period. This includes major investment in the Ipswich to Felixstowe capacity project, as well as works at Southampton, Ely and Peak Forest to London works.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is higher than the baseline, although this is the net position across a number of projects, some of which have spent more than the baseline this year (such as Crossrail) and some which have spent less (such as IEP Programme and GW electrification (Paddington to Cardiff)). The 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 the control period to date is higher than the baseline. This is mostly due to underperformance and 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 higher than the regulator's determination in the year and control period to date as some of the work has been accelerated from future years into the current year to help meet the programme milestones. In addition, some of the extra expenditure is due to negative financial performance (reported in Statement 5a) as the total programme is now expected to cost more than the baseline funding available. 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 is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is lower than the baseline this year, which has also caused the majority of the underspend in the control period to date. The savings in the control period to date are largely due to slower progress on the programme. This has been caused by a variety of factors, including workings around endangered species and listed buildings, delivery of more electricity masts than planned, rising subcontractor costs necessitating re-designing works to something more cost-effective and difficulty acquiring long enough possession windows to deliver the scope. These delays have led to updates to the agreed dates of milestone delivery.
 - 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.

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- e. Bridgend to Swansea electrification (sometimes referred to as South Wales Main Line Electrification) - this project facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes. Investment for the control period to date is consistent with the baseline.
- f. East West Rail - the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is lower than the baseline this year, which negates some of the additional expenditure in earlier years of the control period. The project is split into two phases, elements of the second phase planning and design have been accelerated so the programme can dovetail with construction of HS2. Higher costs for the control period to date are also partly caused by increased total project costs which has resulted in financial underperformance being recognised (refer to Statement 5a).
- g. 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. Costs in the year are higher than the baseline, reflecting a catch up of work deferred earlier in the control period and higher programme costs. Issues have included: overoptimistic estimates of how quickly designs could be completed and contracts granted, planning delays and restrictions (including numerous on-going public inquiries and discovery of underground mine shafts) and a main contractor entering receivership in 2017/18. As a result of these delays and extra planning, financial underperformance has been recognised (refer to Statement 5a). Total programme costs are expected to cost more than the baseline included in the Hendy review.
- h. 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 in the year is in line with the baseline but remains behind for the control period to date. As noted in last year's Regulatory Financial Statements, activity has been re-profiling into future years following contractor and resource difficulties as well as technology and changes to project and output specifications. Changes to milestones have been agreed with DfT for elements of the East Coast scheme. In addition, there are some reductions in programme cost which have resulted in financial outperformance being recognised this year (refer to Statement 5a).
- i. 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. Investment in the current year is lower than the baseline, adding to delays earlier in the control period. Delays have been caused by re-organisation of various projects under a single programme team to improve accountability and planning synergies. Delays have also been caused by similar factors to other electrification programmes, including: constrained supply chain, technical problems with more complex layouts and delays connecting to power sources.
- j. North Trans Pennine Electrification West - this should be considered in conjunction with North Trans Pennine Electrification East (see above) as the baseline for this programme has been expanded to include the West element.

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- 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. The credit balance in the current year relates to favourable settlement of commercial disputes. There is still expected to be some costs in the final year of CP5, but overall control period costs are expected to be lower than the Hendy baseline. The delay in overall delivery has been mostly due to remediation of a spoil heap and improve Cow Lane highway as part of the scope of works. The control period to date also benefits from financial performance (refer to Statement 5c) as tight fiscal control has allowed for a reduction in project contingencies and a decrease in the total anticipated costs of the project.
 - 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. Expenditure in the current year is slightly lower than the baseline which brings the programme costs to date largely in line with the Hendy target.
 - n. West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the Northern programmes noted above. Costs in the control period to date are higher than the baseline, mostly as a result of increased programme costs which has resulted in financial underperformance being recognised (refer to Statement 5c).
- (8) PR13 funded schemes – named schemes - expenditure in the year is significantly less than the baseline. This is due to variances across a number of schemes, with the largest variance arising on MML Electrification. The control period to date variance is driven by a net position across a number of projects, but with the largest single contribution coming from MML Electrification. 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. Parts of this programme have been deferred into CP6. The ambitious quantity of electrification works planned by Network Rail for CP5 has proven to be undeliverable. The reductions in the scope of the Midland Mainline Electrification in CP5 helps free up resources and funds to deliver other programmes considered to be of greater benefit to passengers and taxpayers. The extension to the programme timescales have resulted in financial underperformance being recognised this control period (refer to Statement 5).
 - 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 year is lower than the baseline, which is causing the lower expenditure in the control period to date. Some parts of the programme are now expected to be delivered in the final year of the control period, but agreed regulatory milestones are still expected to be achieved.

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- c. Oxford-Bletchley-Bedford electrification - this project is part of a wider electrification strategy to improve regional and national connectivity and links to ports and airports for both passengers and freight to support economic development. Activity in the current year and control period to date has been minimal compared to the baseline as other parts of the company's electrification programme have received priority.
- d. 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 in the control period to date is lower than the baseline as elements of the programme have been deferred into future years. The uncertainty over the progression of the Midland Main line Electrification, which was paused whilst Network Rail undertook a full strategic review of enhancements but later restarted following DfT discussions, has had a knock-on impact on the advancement of this scheme, particularly Bedford to Kettering. Expenditure in the current year is higher than 2016/17 now that the programme has been recommenced.
- e. Acton to Willesden Electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with the baseline there has been minimal activity so far this control period.
- f. 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. Expenditure for the control period to date is largely in line with the Hendy target.
- g. Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along the Oxford Corridor. Expenditure is lower than the baseline in the current year and control period to date which reflects delays in contract award (as value engineering options are assessed) and restricted network access to undertake works. Whilst investment is expected to ramp up in the final year of the control period parts of the programme have been deferred until CP6 to fit in with the timescales for other projects in the area, thus minimising passenger disruption and maximising delivery efficiencies.
- h. 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 in the current year is higher than the baseline, bringing the control period to date position in excess of the Hendy target which has mainly been caused by increased overall programme costs and prolongation of the project. As a result financial underperformance has been recognised in the current year (refer to Statement 5c).
- i. Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. Expenditure in this control period is expected to be minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.
- j. 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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- k. Service improvements in the Ely area – this project will develop a scheme which improves capacity in the area by developing an operationally flexible junction that can deliver multiple train moves simultaneously. This is an enabling project to allow for a future uplift in trains across the junction, once other (currently unfunded) works are completed. In line with the Hendy baseline, activity in the control period to date is minimal as it has been agreed that the scheme will now be delivered in the next control period.
 - l. 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. However, as the project is now expected to cost more than the baseline over its life cycle (arising from extra work to meet timetable commitments) some financial underperformance has been reported for CP5 (refer to Statement 5c).
 - m. 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. Investment in the year and the control period to date is higher than baseline mostly due to acceleration of activity from future years to meet programme milestones. There was significant investment in this programme in the current year, including delivery of works around the station as part of a large blockade which necessitated closing numerous platforms during the summer.
 - n. 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 lower in the current year than the baseline, which accounts for the majority of the control period to date variance. This has been caused by a combination of underlying cost increases and so recognition of financial underperformance (refer to Statement 5a) offset by deferral of activity to dovetail with other programmes being delivered in the area.
 - o. Bristol Temple Meads Passenger Capacity – This project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. Expenditure in the control period to date has been minimal and is not expected to be caught up in the remainder of the control period as parts of this programme have been postponed until CP6.
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline. This is due to net variances across a number of schemes, with the largest contributions from power supply upgrade projects. The control period to date variance is driven by a net position across a number of projects, again with notable contributions from power supply upgrade projects as well as train lengthening schemes. The following notable variances between expenditure and baselines are set out below:
- a. Leeds and Sheffield capacity - this project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. Investment in the control period is expected to be minimal, which is reflected in the Hendy target, as the projects outputs have been deferred until CP6.
 - b. South London HV traction power upgrade – this project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes in CP6 and beyond. Expenditure on this programme is lower than the Hendy baseline as work has been postponed until CP6.

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- 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. In the current year, expenditure was lower than the baseline which has contributed to the lower spend in the control period to date. This includes delays in securing necessary planning consents and delays from agreeing third party funding contributions and subsequent postponement in contract awards. Whilst expenditure is expected to ramp up next year, overall some of the programme is being deferred into CP6.
- d. Bow Junction upgrade - this project is designed to help relieve overcrowding and supports the achievement of the capacity metric in the Government's 2012 HLOS on core main line services between Shenfield and London Liverpool. Expenditure on this programme is lower than the Hendy baseline as work has been postponed until CP6.
- e. West of England DMU capability works – this project aims to develop solutions for infrastructure capability enhancements to enable the operation of cascaded DMUs from the Thames Valley on the West Country routes. Expenditure for the year and the control period to date is in line with the Hendy baseline.
- f. 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 this year was minimal as the project is substantially complete. Costs for the control period to date are broadly in line with the baseline.
- g. Stevenage and Gordon Hill turnbacks – this project aims to include a terminating platform bay at Gordon Hill. The Stevenage element of the programme has been de-scoped as part of the agreement with DfT and will be revisited in CP6. The reduction in expenditure compared to the Hendy target reflects this postponement.
- h. 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 in the year is in line with the Hendy target but the control period to date costs are lower. The lower investment so far this control period is a combination of higher underlying costs (which has resulted in financial underperformance being recognised (refer to Statement 5a)) more than offset by deferral. This includes deferral of the Feltham element of the scheme into future years arising from delays in local council delivering highway mitigation works. Most of the programme deferral to date is expected to be recovered in the final year of the control period.
- i. 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 in the year and the scheme to date is broadly in line the baseline as the programme is substantially complete.
- j. MML long distance high speed services train lengthening - the project will relieve overcrowding by enabling the introduction of longer trains on the MML (Midland Main Line). Minimal work was completed this year as the project has been reprofiled to later in the control period and beyond. Most of the milestones for this programme are in CP6, as agreed with the regulator and DfT. Most of the shortfall in investment in the control period to date is planned to be caught up in 2018/19.

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- k. Route gauge Clearance for different EMUs – the purpose of this project is to provide infrastructure capability enhancements to enable the operation of new rolling stock in the Thames Valley area. Expenditure is lower than the baseline this year which expected the majority of the programme to be delivered in 2017/18. This has been reprofiled and is expected now to be delivered in 2018/19.
- l. Bradford Mill Lane capacity – this project aims to deliver infrastructure improvements to provide parallel moves at Bradford Interchange to/from Leeds and Halifax. Expenditure in this control period is expected to be minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.
- m. Leeds station capacity – this project aims to deliver additional capacity at Leeds Station to support the operation of longer trains and additional services on a number of routes. Expenditure in this control period is expected to be minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.
- n. Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. The project is largely complete so there is minimal expenditure in the year. However, overall programme costs are expected to be slightly higher than the baseline which has resulted in financial underperformance (refer to Statement 5c).
- o. 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. There has been minimal work so far on this programme which has caused a variance in the current year and the control period to date. The milestones and scope of the programme have yet to be agreed with stakeholders which accounts for the slower than planned progress which is not expected to be caught up in the final year of the control period.
- p. New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure in the year is higher than the baseline which offsets most of the underspend in the opening three years of the control period, with the remainder of the under delivery expected to be caught up in the final year of the control period.
- q. 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. In the current year expenditure is lower than the baseline continuing the trend for the control period to date. This has been partly caused by delays (which are expected to be caught up in the final year of CP6), but also due to the recognition of financial outperformance (refer to Statement 5a).
- r. 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 of the Thameslink Programme. Expenditure for the year is below target which has resulted in an underspend in the control period to date. This has been partly caused by delays (which are expected to be caught up in the final year of CP6), but also due to the recognition of financial outperformance (refer to Statement 5a).

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- s. 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 in the current year is slightly lower than the baseline adding to the saving in the control period to date. This underspend is expected to be caught up in the final year of the control period.
 - t. 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.
 - u. Kent traction power supply upgrade - The project will provide the power to facilitate 12 car operation across the route. Expenditure in the year is in line with the baseline but is lower in the control period to date. Whilst some of this is planned to be caught up next year, overall costs are lower due to the recognition of financial outperformance (refer to Statement 5a).
 - v. 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. Expenditure has been lower in the current year and the control period to date owing to restrictions in suitable resource and access. Delivery of milestones have been re-phased and agreed with DfT.
- (10) 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.
- (11) 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. Expenditure in this category is higher than the baseline mostly due to a reduction in the baseline total Birmingham New Street programme. Despite this expenditure for the control period to date is lower than the Hendy baseline due to savings on the Birmingham New Street programme. 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. Adjustments to the baseline have been made to reflect this. The Hendy baseline assumed that the programme would have progressed further by the end of 2015/16 but there remains certain remedial elements of the programme which has resulted in costs in the current year with some expected for the final year of the control period.

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- 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. Expenditure in the current year is higher than the baseline which offsets some of the underspend experienced in the first three years of the control period. This is mostly due to delays in agreeing programme delivery and possession windows with operators leading to difficulties finalising contractor agreements. Availability of suitable plant also postponed certain activities and value engineering studies have delayed progress. As a result of these factors financial underperformance has been recognised this control period on this programme (refer to Statement 5a).
- 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 for the control period to date is in line with the 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 in the current year was higher than the baseline as the level of funding available was adjusted. Spend for the control period to date is lower than the baseline which reflects savings made by the project resulting in financial outperformance (Statement 5c).
- e. Barry – Cardiff Queen Street - The output of the project is to deliver an increase in south Wales valley line services from 12 trains per hour to 16 trains per hour by January 2017. This is a CP4 capacity scheme rolled over into CP5. As the project is substantially complete there is minimal expenditure this year. Costs for the control period are in line with the Hendy baseline.
- 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 higher than the baseline due to some unexpected costs incurred in finishing the project, including flooding arising adjacent to where the works were being delivered. As a result, financial underperformance has been recognised this control period (refer to Statement 5c).
- g. 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 for the current year and the control period to date as this programme is substantially complete.
- h. 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 is in line with the Hendy baseline for the current year and the control period to date as this programme is substantially complete.

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- i. 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 in the control period to date (refer to Statement 5a) and so not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a). As expected, expenditure in the current year was minimal as the project is substantially complete.
 - j. 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 in the current year is limited as most of the programmes are now complete.
- (12) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a £300m capital grant from DfT in the year which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is still lower than the ORR assumed mainly due to slower utilisation of the Depots & Stabling fund. 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 baseline in the current year as the programme is now substantially complete. The lower costs of delivering the programme has resulted in some financial outperformance being recognised this control period (refer to Statement 5c) on the Mobile Maintenance System element of the programme.
 - 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 this year is ahead of the baseline this year but behind for the control period to date. Some of the CP5 budget has been reallocated by DfT through the change control process, resulting in the credit budget in the current year. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs and how it connects to the Digital Railway strategy.
 - c. R&D allowance – following change control procedures agreed with DfT, there is not intended to be any further investment in R&D classified as Enhancements. Instead, expenditure in the current year (and for 2018/19) is included with renewals (refer to Statement 9b).
 - d. Depots & 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 in the year is much less than the baseline, continuing the trend from earlier years of the control period. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT. Investment in the current year is in line with the previous year.

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- 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 6a). 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 current year is in line with the regulator's target. Expenditure for the control period to date is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. The main project this year was undertaken at London Bridge to improve the retail units to coincide with the Thameslink redevelopment works, building on the investment in the previous year.
 - f. Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period to date which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry and the funds to complete such projects. As part of the Hendy review, the scarce funds available were diverted onto those programmes that were considered to deliver better strategic outputs for the industry. As a result, funding available for this category was minimised.
 - g. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a £300m contribution towards its enhancement programme in England and Wales. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by £300m (refer to Statement 2a).
- (13) 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 2a) or recognised as financial performance (refer to Statement 5c) 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 – notable programmes in this category in the current year include Reading independent feeder (Bramley), a project which contributes to the electrification of the Great Western Main Line (GWML) which facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes and high seating capacity trains on suburban services contributing to the delivery of the HLOS capacity metric for London Paddington. In addition, extra investment has been undertaken to improve the Gospel Oak to Barking overhead line electrification, a joint project undertaken by network Rail, DfT and Rail for London.
 - b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

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- c. Schemes promoted by third parties – the main item in this category which accounts for the majority of the expenditure this control period was East West Rail Phase 1. Part of the overall programme is funded through the PR13 allowances (and so is included in a section above in this statement) and partly through this classification. Expenditure through this fund in the current year has been minimal, continuing the trend of the previous year.
- d. Discretionary investment – expenditure in the control period to date mainly relates to Manchester Victoria station redevelopment and, earlier in the control period, on 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). Manchester Victoria costs related to costs borne by Network Rail on that programme that were not eligible for RAB addition. In addition, costs in the current year relate to expenditure incurred by Network Rail on a number of small programmes to provide benefits to the network. As these projects were not funded through the determination or subsequent Hendy review, they resulted in financial underperformance being recognised (refer to Statement 5c).
- 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. In addition DfT made a £300m contribution to the enhancement portfolio in England & Wales this year, reducing the amount that is added to the RAB in the above categories and increasing expenditure in this area. This extra grant is the main reason for the increase in expenditure in this heading this year compared to 2016/17.

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

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	40,748	38,837	(1,911)	29,335	28,642	(693)
Income						
Grant income	(4,054)	(4,104)	(50)	(15,543)	(15,491)	52
Fixed charges	(362)	(345)	17	(1,286)	(1,214)	72
Variable charges	(1,058)	(1,181)	(123)	(4,110)	(4,304)	(194)
Other single till income	(941)	(957)	(16)	(3,267)	(3,378)	(111)
Total income	(6,415)	(6,587)	(172)	(24,206)	(24,387)	(181)
Expenditure						
Network operations	552	386	(166)	1,995	1,572	(423)
Support costs	355	408	53	1,374	1,678	304
Traction electricity, industry costs and rates	594	675	81	2,172	2,319	147
Network maintenance	1,256	1,010	(246)	4,671	4,068	(603)
Schedule 4	205	200	(5)	800	800	-
Schedule 8	198	4	(194)	596	16	(580)
Renewals	2,061	2,372	311	9,924	9,475	(449)
PR13 enhancement	2,800	2,826	26	11,064	10,608	(456)
Non-PR13 enhancement	151	-	(151)	557	-	(557)
Total expenditure	8,172	7,881	(291)	33,153	30,536	(2,617)
Financing						
Interest expenditure on nominal debt - FIM covered	326	692	366	1,459	2,249	790
Interest expenditure on index linked debt - FIM covered	221	271	50	873	984	111
Expenditure on the FIM	255	441	186	1,151	1,552	401
Interest expenditure on government borrowing	718	-	(718)	1,428	-	(1,428)
Interest on cash balances held by Network Rail	(4)	(26)	(22)	(27)	(70)	(43)
Total interest costs	1,516	1,378	(138)	4,884	4,715	(169)
Accretion on index linked debt - FIM covered	616	653	37	1,432	2,141	709
Total financing costs	2,132	2,031	(101)	6,316	6,856	540
Corporation tax	-	-	-	(2)	4	6
Other	1,039	-	(1,039)	1,080	511	(569)
Movement in net debt	4,928	3,325	(1,603)	16,341	13,520	(2,821)
Closing net debt	45,676	42,162	(3,514)	45,676	42,162	(3,514)

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

(£m, nominal prices)	March 2018 £m	March 2017 £m	March 2016 £m	March 2015 £m
Increase in net debt	4,928	4,176	3,403	3,834
Represented by:				
New debt issued				
Market issued debt	-	-	-	-
Borrowing from government	7,584	5,551	6,821	5,859
Accretion on index linked debt	616	409	204	203
Debt repaid	(2,881)	(2,174)	(2,791)	(2,160)
Decrease in net cash balances	(293)	368	(874)	223
Other	(98)	22	43	(291)
Increase in net debt	4,928	4,176	3,403	3,834

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

In £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

	March 2018		March 2017		March 2016		March 2015	
	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing
(£m, nominal prices)								
Market issued debt								
Nominal borrowings (GBP)	3,968	8%	4,670	11%	5,131	13%	6,810	20%
Nominal borrowings (Foreign currency)	1,872	4%	2,583	6%	4,299	11%	5,398	16%
Total nominal borrowings	5,840	12%	7,253	17%	9,430	24%	12,208	36%
Index linked borrowings (GBP)	17,043	36%	16,446	39%	16,014	42%	15,811	47%
Borrowing from government	24,277	51%	18,240	44%	12,687	34%	5,859	17%
Total regulatory borrowings	47,160	100%	41,939	100%	38,131	100%	33,878	100%
Uncleared cash items	-		-		-		-	
Obligations under finance lease	-		-		-		-	
Net cash balances	(1,484)		(1,191)		(1,559)		(709)	
Regulatory net debt as at 31 March 2018	45,676		40,748		36,572		33,169	

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	0.90	0.87	0.71	0.51	1.03
FFO/interest	2.95	2.94	2.65	2.15	2.83
Net debt/RAB (gearing)	69.5%	71.0%	73.2%	76.0%	72.4%
FFO/debt	9.3%	8.4%	7.8%	7.1%	9.3%
RCF/debt	6.1%	5.5%	4.8%	3.8%	6.0%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. 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) Network Rail's debt attributable to England & Wales has increased by £4.9bn 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) Net debt attributable to England & Wales at 31 March 2018 is £3.5bn higher than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption by £0.7bn mostly due to additional investment undertaken towards the end of CP4. Since then, a combination of higher investment in the railway network (£1.5bn), higher performance regime costs (£0.6bn), higher net operating costs (£0.6bn) and movements in working capital (£0.6bn) have driven increases in debt. These extra cash outflows have been partly mitigated by financing costs savings (£0.5bn).
- (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 other 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 as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(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 made 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 higher than the regulator assumed this year. This is largely due to higher levels of average net debt during the year compared to the regulatory expectation. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are marginally higher than the previous year which, *ceteris paribus*, is expected as the interest expense on index-linked debt in the previous year is added to the principle for future years and there are no scheduled repayments of this type of debt in the current control period. Additionally, RPI this year has been higher than the previous year, thus increasing the interest expense recognised in 2017/18.
- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year.

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

In £m nominal unless otherwise stated

- 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are slightly lower than with those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) which offsets higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of Crossrail project funding made available during the course of construction.
- (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 over around half of Network Rail's gross debt by value is payable to government. The proportion of gross debt issued by government has increased since last year as existing nominal debt is refinanced and further investment in capital works is undertaken by the company. Nominal borrowings have decreased in both absolute and proportionate terms as the aforementioned bonds that have matured in the current year have been replaced by drawdowns against the DfT loan facility. 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 most of the interest costs associated with such instrument are added to the principle each year. The proportion of this index-linked debt has decreased this year as the rate of overall gross debt has increased at a quicker rate than RPI.

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

In £m nominal unless otherwise stated

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

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging 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 Maintenance costs and lower turnover partly offset by savings in Support costs as described elsewhere in these accounts. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(18) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

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

In £m nominal unless otherwise stated

- (19) 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 2017/18 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings and a lower opening debt: RAB ratio at the start of the control period. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. 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 absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above) and by a favourable position at the start of the control period compared to the regulator’s expectation where extra capital works towards the end of CP4 more than offset the corresponding increase in debt. The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected.
- (20) 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 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 but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4) and adverse movements in working capital. The decline in the ratio this 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, which all get harder with each passing year.
- (21) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, England & Wales

In £m 2017-18 prices unless stated

2017-18

	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C		D	E	F		
Income									
Grant Income	4,054	4,104	(50)	-	(50)	-	-	-	-
Fixed Income	362	345	17	-	17	-	-	-	-
Variable Income	773	798	(25)	-	-	-	-	(25)	(25)
Other Single Till Income	941	957	(16)	-	(14)	-	-	(2)	(2)
Opex memorandum account	-	-	-	-	28	-	-	(28)	(28)
Total Income	6,130	6,204	(74)	-	(19)	-	-	(55)	(55)
Expenditure									
Network operations	552	386	(166)	-	-	-	-	(166)	(166)
Support costs	355	408	53	-	5	-	-	48	48
Industry costs and rates	300	259	(41)	-	(26)	-	-	(15)	(15)
Traction electricity	8	30	22	-	-	-	-	22	22
Reporter's fees	1	3	2	-	-	2	-	-	-
Network maintenance	1,256	1,010	(246)	-	-	(33)	-	(213)	(213)
Schedule 4 costs	205	200	(5)	-	-	87	-	(92)	(92)
Schedule 8 costs	198	4	(194)	-	-	-	-	(194)	(194)
Renewals	2,061	2,372	311	-	7	1,110	-	(806)	(207)
PR13 Enhancements	2,800	3,344	544	-	-	836	-	(292)	(69)
Non PR13 Enhancements	151	-	(151)	-	-	(143)	-	(8)	(8)
Financing Costs	2,132	2,031	(101)	-	(101)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-	-
Total Expenditure	10,019	10,047	28	-	(115)	1,859	-	(1,716)	(894)
Total:	-	-	(46)	-	(134)	1,859	-	(1,771)	(949)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters									(949)
Less adjustments for under-delivery of outputs and reduced sustainability									
Under-delivery of train performance requirements (PPM)									(142)
Under-delivery of train performance requirements (CaSL)									(51)
Missed milestones for asset management - data quality									(4)
Missed milestones for Offering Rail Better Information Services (ORBIS)									-
Missed Enhancement milestones									-
Total adjustment for under-delivery outputs									(197)
Total financial out / (under) performance to be recognised									(1,146)

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

In £m 2017-18 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Due to: total financial performance	Variance not included in total performance	Variances in volume of work	Other adjustments to PR13	Financial out / (under) performance
			Favourable / (Adverse)					Final Variance
			C					$G = C - D - E - F$ $H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	16,204	16,144	60	-	60	-	-	-
Fixed Income	1,341	1,264	77	-	77	-	-	-
Variable Income	3,172	3,182	(10)	-	-	-	-	(10)
Other Single Till Income	3,401	3,515	(114)	-	(175)	-	-	61
Opex memorandum account	16	-	16	-	31	-	-	(15)
Total Income	24,134	24,105	29	-	(7)	-	-	36
Expenditure								
Network operations	2,076	1,641	(435)	-	(5)	-	-	(430)
Support costs	1,434	1,752	318	-	57	-	-	261
Industry costs and rates	1,079	994	(85)	-	(34)	-	-	(51)
Traction electricity	68	104	36	-	-	-	-	36
Reporter's fees	5	12	7	-	-	7	-	-
Network maintenance	4,866	4,245	(621)	-	-	(56)	-	(565)
Schedule 4 costs	836	834	(2)	-	-	192	-	(194)
Schedule 8 costs	618	16	(602)	-	-	-	-	(602)
Renewals	10,385	9,884	(501)	-	19	2,912	-	(3,432)
PR13 Enhancements	11,532	12,689	1,157	-	-	2,000	-	(843)
Non PR13 Enhancements	583	-	(583)	-	-	(564)	-	(19)
Financing Costs	6,479	6,856	377	-	377	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(2)	4	6	-	-	6	-	-
Total Expenditure	39,959	39,031	(928)	-	414	4,497	-	(5,839)
Total:	-	-	(899)	-	407	4,497	-	(5,803)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(2,576)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(478)
Under-delivery of train performance requirements (CaSL)								(158)
Missed milestones for asset management - data quality								(4)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(39)
Missed Enhancement milestones								(5)
Total adjustment for under-delivery outputs								(684)
Total financial out / (under) performance to be recognised								(3,260)

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

In £m 2017-18 prices unless stated

	2017-18				Cumulative			
			Variance not				Variance not	
Breakdown of variance not included in total financial performance -Variable income:	Actual	Adjusted PR13	included in total financial performance		Actual	Adjusted PR13	included in total financial performance	
Adjustments for external traction electricity	(285)	(383)	-	98	(1,113)	(1,301)	-	188
Total variance not included in total financial performance:	(285)	(383)	-	98	(1,113)	(1,301)	-	188
Breakdown of variance not included in total financial performance - OSTI:								
Adjustment for Crossrail finance charge	83	85	-	(2)	93	243	-	(150)
Adjustment for Welsh Valleys finance charge	-	8	-	(8)	-	13	-	(13)
Total variance not included in total financial performance:	83	93	-	(10)	93	256	-	(163)
Breakdown of variance not included in total financial performance - Support costs:								
Crossrail financing contract receipt	-	-	-	-	22	-	-	22
Spend to save adjustment	5	-	-	5	12	-	-	12
Release of CP4 long distance financial penalty provision	-	-	-	-	23	-	-	23
Total variance not included in total financial performance:	5	-	-	5	57	-	-	57
financial performance - Network Operations costs:								
Southern resilience fund	-	-	-	-	(5)	-	-	(5)
Total variance not included in total financial performance:	-	-	-	-	-	-	-	-
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction	285	383	-	(98)	1,113	1,301	-	(188)
Total variance not included in total financial performance:	285	383	-	(98)	1,113	1,301	-	(188)
Breakdown of variance not included in total financial performance - Renewals:								
Investment of CP4 long distance	7	-	-	7	19	-	-	19
Total variance not included in total financial performance:	-	-	-	-	-	-	-	-

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

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 assess 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 in the year and the control period to date 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. The remaining variance relates to additional income network Rail has been able to generate through extra franchise income. Under the FPM guidelines agreed with ORR no financial outperformance is recorded for this.

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

In £m 2017-18 prices unless stated

- (3) Variable income – across the control period to date, Network Rail has a negative variance mostly as a result of lower than expected variable usage charges from train operators. In the current year, financial underperformance has been recognised as growth has been unable to keep up with increases in regulatory targets. In addition, adverse movements in inflation have resulted in higher increases in the determination assumptions, as actual income is uplifted using the previous year's inflation (ie November 2016/17). 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. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – this year, financial underperformance has been reported. This is mainly due to lower freight income partly offset by extra income from offering additional services to train operators. Some of the variances to the regulator's determination has been classified as neutral when calculating FPM. The PR13 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 fully materialise. Instead, in the case of Crossrail, the external party provided the funding directly to Network Rail resulting in lower income. Network Rail commenced repayment of this funding towards the end of the current year resulting in some income this year, although this was substantially lower than the regulator anticipated. 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. In addition, an adjustment has been made (in Column D) to reflect income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 is treated as neutral when assessing financial performance. The underperformance recognised in Other single till income this year is mainly the result of the continued decline in freight traffic (largely driven by demand for coal transportation) which have been partly offset by extra station and depot income from offering operators additional facilities. The favourable performance in the control period to date is largely driven by extra stations and depots services offered to operators and higher property sales which have more than offset the decline in freight income. Other single till income is set out in more detail in Statement 6a.
- (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 and in the control period to date. Slow freight growth showing structural changes in the industry and lower farebox income have resulted in financial underperformance being recognised this year. For the control period to date, increases in passenger demand and consequent extra services earlier in the control period have been offset by slower passenger growth in recent years and continued issues with freight. The volume incentive is discussed in more detail in Statement 12.

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

In £m 2017-18 prices unless stated

- (6) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the request of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that were announced in January 2017. Again, it has been agreed with the regulator that this fund will be outside the scope of the FPM.

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

In £m 2017-18 prices unless stated

- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business, continuing the trend of earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D. In addition, receipts from restructuring contracts with Crossrail are outside the scope of FPM, as noted in the previous year's Regulatory Financial Statements.
- (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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arise from similar causes.
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance). The control period to date position reflects similar factors to those noted above.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. Savings in the current year and the control period to date are considered to arise as a result of timing and so no financial outperformance has been reported as the savings are expected to reverse by the end of the control period.

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

In £m 2017-18 prices unless stated

- (11) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are lower this year than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated.

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

In £m 2017-18 prices unless stated

- (13) Schedule 8 costs – costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident has been high. Extra focus has been put on improving this metric as part of the company's strategy and improvements have been made this year but there is still potential for improvement. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included derailments at Waterloo and Paddington stations, lineside fires at Harrow and South Hampstead as well as storm damage in June 2017. Also, the issue of network trespass was a particular challenge this year with the London North West route south of Rugby particularly effected. Whilst some positive steps are being taken (such as investment in higher fencing and other technology to minimise access, increased security patrols at known hotspots and working with the Samaritans) such disruption affects performance significantly.
- (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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

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

In £m 2017-18 prices unless stated

- (15) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Thameslink, Crossrail and Northern Hub following anticipated programme increases. The control period to date position is largely dominated by these same programmes. Individual programme variances are 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). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (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 FPM recognised in the current year mainly relates to a number of small discretionary projects that were implemented to generate improvements in the network. However, as there was no funding available for these, financial underperformance is recognised. Costs earlier in the control period relate to Manchester Victoria where higher contractor costs at the end of the programme increased project costs.
- (17) Financing costs – financing costs are higher than the regulator expected mainly due to comparatively higher inflation on debt instruments compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drive the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.
- (18) Corporation tax – income tax payments have been made this year which partly offsets the favourable position for the opening two years of the control period. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed at the end of the control period when a full picture is available.

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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

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

In £m 2017-18 prices unless stated

- (2) PPM – passenger train punctuality targets for England & Wales were missed in 2017/18, continuing the trend from earlier years 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 92.4 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 earlier years of the control period 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 the previous years of the control period. In line with the regulator's guidelines, £3m (cash prices) has been included for every 0.1 per cent that this regulatory output of 2.2 per cent was missed by.
- (4) Missed enhancement milestones – in line with the regulator's rules 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 have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.
- (6) Asset management –the regulator set targets about improvements in data quality that Network Rail was to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this year.

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

In £m 2017-18 prices unless stated

2017-18

	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	(7)	265	(272)	(68)		(68)	-	-
Signalling	(5)	219	(224)	(56)		(56)	-	-
Civils	37	217	(180)	(45)		(42)	(3)	-
Buildings	66	106	(40)	(10)		(6)	(4)	-
Electrical power and fixed plant	2	54	(52)	(13)		(8)	(5)	-
Telecoms	12	20	(8)	(2)		(2)	-	-
Wheeled plant and machinery	51	51	-	-		-	-	-
IT	8	8	-	-		-	-	-
Property	11	11	-	-		-	-	-
Other renewals	136	166	(30)	(13)		(13)	-	-
Total	311	1,117	(806)	(207)		(195)	(12)	-

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	(581)	731	(1,312)	(328)		(321)	(7)	-
Signalling	319	1,159	(840)	(210)		(202)	(8)	-
Civils	(254)	510	(764)	(191)		(148)	(43)	-
Buildings	44	208	(164)	(41)		(23)	(18)	-
Electrical power and fixed plant	214	426	(212)	(53)		(20)	(33)	-
Telecoms	82	102	(20)	(5)		(3)	(2)	-
Wheeled plant and machinery	210	210	-	-		-	-	-
IT	(107)	(107)	-	-		-	-	-
Property	35	31	4	1		1	-	-
Other renewals	(463)	(339)	(124)	(37)		(11)	(26)	-
Total	(501)	2,931	(3,432)	(864)		(727)	(137)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

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, continuing the trend from the previous years on the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track, Civils and CP4 rollover items) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

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

In £m 2017-18 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Approximately one-quarter of this was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The practical deliveries of using High Output delivery methods resulted in a number of routes electing not to use this delivery method in 2017/18. However, there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which all contributed to the financial underperformance this year. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year partly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, including additional scope and cost at 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 has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2017-18 prices unless stated

- (4) Civils – as with the previous years of the control period, 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. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation this control period as a result of landslips and other water damage which have affected the network throughout England & Wales. These emergency works have contributed over £120m of extra costs this control period – including damage to Dover seawall, Settle-Carlisle line and Harbury landslip. The unit rates on these types of jobs are higher than usual given the time critical nature of the incidents.
- (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. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, some extra work has been undertaken to improve asset condition, notably at Liverpool Moorfields, Manchester Victoria and Carlisle.

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

In £m 2017-18 prices unless stated

- (6) Electrical power and fixed plant – financial underperformance has been reported for this asset category in the current year, continuing the trend from earlier years of the control period. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. The costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation, which has been exacerbated by priority for plant being given to support the Great Western electrification enhancement programme. 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. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, 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 earlier years of the control period. This is mostly due to the efficiencies assumed in the regulator's targets not being achieved. The efficiency plans for the control period included better consolidation and planning of workbank requirements to achieve contracting pricing and delivery savings. However, this assumed that activity could be deferred with minimal adverse operational impact and that routes could be sufficiently co-ordinated in their planning. Financial underperformance was also partly due to lower than planned volumes delivered for Customer information systems, Public address systems and CCTV. Reductions in volumes do not result in a linear reduction in costs as there is a certain level of fixed costs which is spread across fewer units.

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

In £m 2017-18 prices unless stated

(8) Other – this is made up of a number of different categories including the following:

- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
- b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.
- c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constraints the activities required to build capacity for CP6 and beyond is now funded through renewals.
- d. CP4 rollover: 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). The underperformance recognised in the control period to date includes notable contributions from electrification projects and FTN.

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

In £m 2017-18 prices unless stated
2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(32)	6	-	(38)	(9)
East West Rail (committed scheme)	27	35	-	(8)	(2)
IEP Programme	2	(8)	-	10	3
Reading station area redevelopment	18	(1)	-	19	4
West coast power supply upgrade	(30)	(10)	-	(20)	(5)
MML electrification	153	156	-	(3)	(1)
Walsall to Rugeley electrification	(31)	(12)	-	(19)	(4)
Redhill additional platform	-	10	-	(10)	(3)
Kent power supply upgrade	(9)	(12)	-	3	-
Chiltern Main Line Train Lengthening	3	3	-	-	-
Capacity relief to the ECML	(2)	1	-	(3)	(1)
Seven day railway projects	6	6	-	-	-
MML linespeed improvements	2	(4)	-	6	2
Manchester Victoria	-	-	-	-	-
Crossrail	(133)	14	-	(147)	(34)
Northern Hub	(217)	(146)	-	(71)	(18)
Waterloo	(35)	(39)	-	4	1
Bromsgrove Elec - Midlands Improvements Progr	(5)	1	-	(6)	(1)
Dr Days Jcn to Filton Abbey Wood Capacity	14	27	-	(13)	(3)
Anglia Traction power supply upgrade	5	(1)	-	6	2
Sussex Traction power supply upgrade	17	10	-	7	2
Reading, Ascot to Waterloo Train Lengthening	(1)	9	-	(10)	(3)
Other Enhancements	641	648	-	(7)	(7)
Total	393	693	-	(300)	(77)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(171)	156	-	(327)	(47)
East West Rail (committed scheme)	(31)	(1)	-	(30)	(7)
IEP Programme	68	54	-	14	4
Reading station area redevelopment	57	27	-	30	6
West coast power supply upgrade	(15)	21	-	(36)	(9)
MML electrification	179	186	-	(7)	(2)
Walsall to Rugeley electrification	(13)	21	-	(34)	(9)
Redhill additional platform	(1)	14	-	(15)	(4)
Kent power supply upgrade	2	(7)	-	9	2
Chiltern Main Line Train Lengthening	(1)	3	-	(4)	(1)
Capacity relief to the ECML	(5)	4	-	(9)	(2)
Seven day railway projects	3	-	-	3	1
MML linespeed improvements	(3)	(1)	-	(2)	-
Manchester Victoria	(11)	-	-	(11)	(11)
Crossrail	(334)	(62)	-	(272)	(77)
Northern Hub	(43)	110	-	(153)	(38)
Waterloo	(62)	(62)	-	-	-
Bromsgrove Elec - Midlands Improvements Progr	6	12	-	(6)	(1)
Dr Days Jcn to Filton Abbey Wood Capacity	16	29	-	(13)	(3)
Anglia Traction power supply upgrade	17	11	-	6	2
Sussex Traction power supply upgrade	21	14	-	7	2
Reading, Ascot to Waterloo Train Lengthening	7	17	-	(10)	(3)
Other Enhancements	888	890	-	(2)	(6)
Total	574	1,436	-	(862)	(203)

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

In £m 2017-18 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 and so 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 their 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 incoming 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). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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 expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. 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 overspend. The size and complex nature of this programme means that there are a number of risks which need to be successfully managed to deliver the remainder of the programme within the latest forecast.

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

In £m 2017-18 prices unless stated

- (2) 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 control period to date. The reason for the increased costs 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. The programme costs remain broadly in line with the expected costs forecast at March 2017 and so the amount of financial underperformance recognised in 2017/18 is in line with expectation.
- (3) IEP programme – the total expected costs for the programme are lower than the Hendy baseline which has resulted in recognition of financial outperformance. Savings this year have arisen from: simplifying layout at Newcastle which has reduced the complexity and so cost of the works, substituting contractor delivery with underutilised local works delivery team for certain parts of the programme, lower tender prices than expected on electrification boosters and implementing alternative platform designs compared to the original plan.
- (4) 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. Successful close out of projects in this programme in the current year have enabled a further reduction in programme costs, augmenting the financial outperformance reported in earlier years of the control period.
- (5) West coast power supply upgrade – the anticipated final costs of the programme have increased in recent years resulting in financial underperformance being recognised in the current year and the control period to date. Expected programme costs increases arose from contractor disputes, extra scope delivered at Crewe/ Winsford substations, Earlier in the control period costs increased due in part of delays in a number of sectional commissionings due to uncertainty regarding requirements to cover specific isolation scenarios. A subsequent reprioritisation of feeder areas has resulted in an adverse impact on the programme, where the project has been unable to achieve the forecast available productive time due in part to constrained access and an increase in the volume of safety critical staff required to deliver the revised programme. De-vegetation work, trough clearance and remediation work also exceeding the initial estimated volumes as has the number of switches and circuit breakers required. Lastly, milestone changes on Northern programmes (notably North West Electrification Programme) have had a knock-on impact on this programme.
- (6) Walsall to Rugeley electrification – as a result of expected increases in the total programme costs financial underperformance has been recognised this control period. Programme delivery has been slower than planned due to contractor delivery and identification of a number of undocumented historic mine works found underneath the line after work began. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project. In addition, interfacing with existing overhead line electrification equipment at Walsall which was dates from the 1960s has proved to be more complex than first predicted.

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

In £m 2017-18 prices unless stated

- (7) Redhill additional platform – as a result of expected increases in the total programme costs emerging this year, financial underperformance has been recognised this year and in the control period to date. These extra costs have emerged from additional work required to meet timetable commitments and improvements made to the original project designs to minimise on-going costs once the assets are operational. Additional contractor costs have also added to the expected project expenditure as detailed quotes received were higher than the original estimates. Also, access has been lost to other projects which have prolonged project timescales.
- (8) Kent traction power supply upgrade (CP4) - outperformance has been recognised in the year and the control period to date due to lower programme costs which have been identified this year. The project is largely complete and delivery risks (including management of contractor variation claims) have been successfully managed, resulting in decreased expected final costs. There have been further reductions to programme costs identified this year as part of successful close-out of final contractor claims and accounts.
- (9) Capacity relief to the ECML – costs are expected to be higher than the Hendy baseline. This includes: extra costs arising from new scope to provide step free access at Spalding station, extra re-railing delivered and negotiations with landlords for site access.
- (10) MML linespeed improvements – earlier in the control period some minor underperformance has been recognised as total programme costs were expected to be slightly higher than the Hendy review assumed. However, the programme delivered the remainder of the outputs this year with few additional costs, which reduced the overall financial underperformance recognised this control period.
- (11) 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. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance is included in the assessment of financial performance.
- (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 and unforeseen energy interoperability rules compliance costs for the installation of West Outer Overhead Line Equipment. In addition, higher contractor costs have been caused by design updates and changes in access strategy (with primacy granted to Great Western Electrification programme). Efficiency challenges in the original plans have not been achieved putting further pressure on funding. The strategic importance for the overall railway network of completing this programme to agreed timescales places extra strain on efficient delivery. 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.

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

In £m 2017-18 prices unless stated

- (13) Northern Hub – underperformance has been recognised this year and for the control period to date following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is due to a number of factors including increased scope arising from worse than expected asset condition necessitating extra remediation costs and extra requirements as part of the Liverpool Lime Street remodelling. In addition, a new procurement model is being used for this programme which is proving more costly than expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues. In addition there have been a number of unforeseen challenges such as route wide mining, DNO power lines, complexity of signalling arrangements and OLE design which have influenced costs. Access constraints, timetable commitments and higher than expected supply chain costs have added extra cost pressures with the widely-publicised demise of Carillion adding delays to the programme whilst alternative arrangements were enacted.
- (14) Waterloo – tight control of contingencies, along with successful delivery of works during a blockade over the summer, has allowed the expected costs of the programme to reduce back in line with the Hendy baseline. The positive financial performance recognised this year negates the financial underperformance recognised earlier in the control period.
- (15) Bromsgrove electrification – the expected total programme costs increased this year. This was mostly due to difficulties in completing scheduled works during a long blockade over the festive period. Further possessions have had to be acquired in the forthcoming year which will incur extra costs on the project.
- (16) Dr Days Junction to Filton Abbey Wood capacity – expected total programme costs have increased this year resulting in the recognition of financial underperformance in the current year and control period to date. This has included late increases to contractor costs, slower on-site delivery and increased design complexity which has necessitated additional possessions to be incorporated into the plan, signalling data transmission issues and resources being redirected towards the more strategically important Crossrail programme.
- (17) Anglia Traction power supply upgrade – savings have been made to the total expected project costs this year following a review of feeder station locations. This has allowed closer placement, reducing the amount of cabling required and quickening the delivery of the works.
- (18) Sussex traction power supply upgrade – some savings have been achieved against the Hendy target on this programme. This has been achieved through efficient workbank planning, value engineering and tight control of programme contingencies.
- (19) Reading, Ascot to Waterloo Train lengthening – the anticipated costs of this programme increased in the current year leading to financial underperformance being recognised. This primarily relates to increased costs around the Feltham area, including delays to the programme to coincide with local council enabling works and changes to the engineering standards and design to satisfy local council requirements.
- (20) 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. In addition, minor financial performance variances are captured through this heading.

Statement 6a: Analysis of income, England & Wales

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	4,054	4,104	(50)	16,204	16,144	60	4,068
Franchised track access income							
Fixed charges	362	345	17	1,341	1,264	77	310
Variable charges							
Variable usage charge	161	171	(10)	654	668	(14)	164
Traction electricity charges	285	383	(98)	1,113	1,301	(188)	273
Electrification asset usage charge	15	16	(1)	59	58	1	16
Capacity charge	412	423	(11)	1,672	1,670	2	418
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	185	188	(3)	787	786	1	202
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	1,058	1,181	(123)	4,285	4,483	(198)	1,073
Total franchised track access income	1,420	1,526	(106)	5,626	5,747	(121)	1,383
Total franchised track access and grant income	5,474	5,630	(156)	21,830	21,891	(61)	5,451
Other single till income							
Property income	358	356	2	1,345	1,293	52	346
Freight income	58	96	(38)	246	335	(89)	55
Open access income	37	30	7	129	117	12	33
Stations income	255	244	11	1,023	980	43	263
Facility and financing charges	139	156	(17)	316	492	(176)	69
Depots Income	81	60	21	280	239	41	74
Other income	13	15	(2)	62	59	3	17
Total other single till income	941	957	(16)	3,401	3,515	(114)	857
Total income	6,415	6,587	(172)	25,231	25,406	(175)	6,308

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

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower government grants (arising from lower inflation) and lower freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned from offering additional services to operators). Income for the control period to date is lower than the regulatory target due to lower traction electricity income and freight revenue (for the reasons noted above) as well as lower income received from Crossrail financing arrangements (offset by interest cost savings made by Network Rail). Income is higher than the previous year mainly due to additional income received under Crossrail financing agreements.

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

In £m 2017-18 prices unless stated

- (3) Fixed charges – fixed charge income was slightly lower than the determination this year. This is attributable 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 on Grant income. 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). This shortfall is partially offset by additional income Network Rail has earned from the provision of additional services to operators, notably in London North West route, continuing the trend of supplementary income received in earlier years of the control period. Fixed charges for the control period to date are higher than the regulator expected due to a combination of inflationary benefits as described above in the comment on Grant income and the provision of additional services in the London North West route. Fixed charges are higher than last year but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.
- (4) Variable usage charge – income from variable usage charges paid by train operators is lower than the determination expected. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2017/18 which necessitated extra disruptive possessions, including Northern Programmes, Crossrail, Great Western electrification and Waterloo developments. Differentials in the inflation rate used to uplift the determination target and the contractual prices charged, as described in more detail above, also contributes to the shortfall this year. The control period to date variance arises as a result of the lower income in the current year. Income is lower than the previous year due to a slight reduction in the level of services provided as illustrated through performance under the Volume incentive mechanism (shown in Statement 12). This was partly caused by the high level of disruptive enhancements being undertaken this year, including Northern Programmes, Crossrail, Great Western electrification and Waterloo developments. This was partly offset by some extra income generated in Sussex and Kent this year following the disturbance that industrial action caused to passengers in 2016/17.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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 favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was higher than the previous year reflecting higher market prices but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a). As market prices have been lower than the regulator assumed in each of the last four years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).

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

In £m 2017-18 prices unless stated

- (6) Capacity charge – in the current year this is lower than the determination expected but remains favourable for the control period to date. About half of the adverse position in the year is due to differentials in the inflation rate used to uplift the determination target and the contractual prices charged, as described in more detail above. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2017/18 which necessitated extra disruptive possessions, including Northern Programmes, Crossrail, Great Western electrification and Waterloo developments. There has been a slight decrease in the capacity charge earned this year, mainly due to these large disruptive programmes, as well as the snow that Storm Emma brought at the end of February which lead to widespread cancellations. In addition, slightly fewer trains have been than the previous year, notably in Western and Wessex routes, which has been offset by extra services in Sussex where passenger services were devastated by industrial action in 2016/17. The control period to date position is favourable to the regulator's target. This is due to a combination of running more passenger services earlier in the control period and differences in inflation rates as described above.
- (7) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. The noticeable reduction compared to the previous year is a function of the regulator's assumption for CP5, which assumed reductions in Network Rail's schedule 4 costs (which this income is designed to cover) over the control period due to year-on-year reductions in renewals investment and possession planning efficiencies.
- (8) Property income – this is broadly in line with the determination target this year with additional property sales more compensating for lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Property sales income is higher than the regulator's determination this year. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway. Income in the control period to date is ahead of the regulatory target, which includes the benefit of Network Rail disposing of its interests in the Grand Central shopping complex in Birmingham earlier in the control period as well as the extra sales made in the current year.

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

In £m 2017-18 prices unless stated

- (9) Freight Income – this is well below the regulator’s determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing by around 75 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. Overall, the tonnage of materials moved by freight has decreased by around 25 per cent since the last year of CP4. The regulator’s determination expected significant increases in wood pellet haulage to support the Drax power station could be achieved in CP6. Whilst this area has improved the expected level of growth has proven over optimistic. 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) but lower income. The structural changes facing the freight market over the past four years and the lower electricity market prices has driven the adverse performance to the regulator’s assumption for the lower control period to date. There has been an increase in freight income compared to the previous year. The improvement is mainly due to increases in construction and domestic retail traffic which has helped alleviate continued decreases in coal traffic.
- (10) Open access income – this continues to outperform the regulatory assumption as Network Rail provides additional services to operators in response to customer demand. The underlying outperformance in the control period to date is higher than it may first appear as it absorbs lower than expected income from traction electricity, owing to lower wholesale electricity prices. 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).
- (11) Stations income – revenue earned this year is higher than the regulator expected. This is partly due to a transfer of Reading and Bristol stations from franchised to managed earlier in the control period, meaning Network Rail assumes responsibility for running these stations directly rather than the franchise operator which generates more income, but also results in additional operating costs (as noted in Statement 7a). In addition, extra income has been earned following redevelopment of Birmingham New Street station, Euston and London Bridge. This is partly offset by reductions in income in Anglia as a result of stations associated with the c2c franchise passing to the operator. This reduces Network Rail’s income but also running costs. In the control period to date, station income has been higher than the regulator anticipated due to the aforementioned transfer of Bristol and Reading stations and the impact of managed station redevelopment partly offset by the transfer of stations to the franchisee in the Anglia route. Income is lower than the prior year which benefitted from non-recurring items, including the favourable settlement of commercial disputes in Sussex and Kent.

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

In £m 2017-18 prices unless stated

- (12) Facility and financing charges – income in this category is 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. In addition, at the time of the determination 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 meaning no income has been generated in the current year of the control period to date. 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). The lower income in the control period to date is a combination of the factors noted above along with lower Crossrail finance income. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties 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. As noted in the previous year's Regulatory financial statements, in 2016/17 Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. This year, further amounts were repaid resulting in additional income earned in this category compared to the prior year.
- (13) Depots income revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and LNE as well as benefits following the development of Reading depot. Income has improved since last year following extra services offered, notably in Western, to facilitate the new Intercity Express Programme, and Sussex.
- (14) Other income – income – this category includes 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. Whilst the values are broadly in line with the regulator's determination there is a positive underlying performance. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed operations. The quinquennial regulatory control period for High Speed does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed set out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Despite this Network Rail have been able to enact efficiency strategies to outperform the targets in the High Speed determination. Income is lower than the previous year as the High Speed efficiency targets become more challenging.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Property Income							
Property rental	290	351	(61)	1,108	1,272	(164)	289
Property sales	68	38	30	237	149	88	57
Adjustment for commercial opex	-	(33)	33	-	(128)	128	-
Total property income	358	356	2	1,345	1,293	52	346
Freight income							
Freight variable usage charge	45	66	(21)	192	242	(50)	44
Freight traction electricity charges	5	12	(7)	22	37	(15)	4
Freight electrification asset usage charge	-	1	(1)	-	3	(3)	-
Freight capacity charge	4	7	(3)	14	22	(8)	3
Freight only line charge	1	4	(3)	6	14	(8)	1
Freight specific charge	-	4	(4)	-	6	(6)	-
Freight other income	2	-	2	7	-	7	2
Freight coal spillage charge	1	2	(1)	5	11	(6)	1
Total freight income	58	96	(38)	246	335	(89)	55
Open access income							
Variable usage charge income	7	2	5	24	9	15	7
Open access capacity charge	2	2	-	7	6	1	2
Open access traction electricity charges	8	6	2	18	22	(4)	4
Fixed contractual contribution	20	20	-	80	80	-	20
Open access other income	-	-	-	-	-	-	-
Total open access income	37	30	7	129	117	12	33
Stations income							
Managed stations income							
Long term charge	33	33	-	134	132	2	33
Qualifying expenditure	61	42	19	234	170	64	63
Total managed stations income	94	75	19	368	302	66	96
Franchised stations income							
Long term charge	115	121	(6)	472	487	(15)	121
Stations lease income	46	48	(2)	183	191	(8)	46
Total franchised stations income	161	169	(8)	655	678	(23)	167
Total stations income	255	244	11	1,023	980	43	263
Facility and financing charges							
Facility charges	56	63	(7)	223	236	(13)	58
Crossrail finance charge	83	85	(2)	93	243	(150)	11
Welsh Valleys finance charge	-	8	(8)	-	13	(13)	-
Total facility and financing charges	139	156	(17)	316	492	(176)	69
Depots income	81	60	21	280	239	41	74
Other	13	15	(2)	62	59	3	17
Total other single till income	941	957	(16)	3,401	3,515	(114)	857

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

In £m 2017-18 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) Overall, single till income is lower than the regulator expected this year mainly as a result of lower freight income (as a result of structural declines in the coal transportation market) partly offset by extra income earned from offering additional services to operators. Income for the control period to date is lower than the regulatory assumption mostly due to lower Crossrail finance income (which is offset by interest cost savings), lower freight income (due to the aforementioned structural decline in key markets) partly alleviated by extra station and depot services offered to operators. Income is higher than the previous year due to additional income earned from Crossrail finance charges (which is largely offset by higher financing costs).
- (2) 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 below the regulatory expectation for both current year and the control period to date with the gap to the determination widening each year. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income.
- (3) Property sales – income is higher than the regulator's determination this year. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway. Income in the control period to date is ahead of the regulatory target, which includes the benefit of Network Rail disposing of its interests in the Grand Central shopping complex in Birmingham earlier in the control period as well as the extra sales made in the current year.

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

In £m 2017-18 prices unless stated

- (4) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing by around 75 per cent compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. Overall, the tonnage of materials moved by freight has decreased by around 25 per cent since the last year of CP4. The regulator's determination expected significant increases in wood pellet haulage to support the Drax power station could be achieved in CP6. Whilst this area has improved the expected level of growth has proven over optimistic. 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) but lower income. The structural changes facing the freight market over the past four years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the lower control period to date. There has been an increase in freight income compared to the previous year. The improvement is mainly due to increases in construction and domestic retail traffic which has helped alleviate continued decreases in coal traffic.
- (5) Open access income – this continues to outperform the regulatory assumption as Network Rail provides additional services to operators in response to customer demand. The underlying outperformance in the control period to date is higher than it may first appear as it absorbs lower than expected income from traction electricity, owing to lower wholesale electricity prices. 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).
- (6) Managed stations – Qualifying expenditure – income is higher than the PR13 assumption. The largest contribution to this favourable position comes from 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). In addition, there is also some extra income as a result of the costs incurred revamping Birmingham New Street, London Euston and London Bridge, a portion of which are passed to the operators under the franchise contracts. These factors are also largely responsible for the favourable control period to date position compared to the regulator's expectations.
- (7) Franchised stations – long term charge – income in the year was lower than the regulatory target. 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 reduced income. 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 same factors have contributed to the lower income for the control period to date compared to the regulator's assumption. As noted in the previous year's Regulatory financial statements extra income was received in 2016/17 due to successful resolution of customer disputes in Sussex. Removing this non-recurring benefit, income is broadly in line with the previous year.

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

In £m 2017-18 prices unless stated

- (8) Franchised stations – Stations Lease Income – income is lower than the regulatory target for both the current year and the control period to date mostly as a result of the transfer of Bristol and Reading to Managed stations and the transfer of Anglia stations to the franchisee as noted above.
- (9) 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.
- (10) Crossrail finance charge - the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties 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. As noted in the previous year's Regulatory financial statements, in 2016/17 Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. This year, further amounts were repaid resulting in additional income earned in this category this year. The large variance in the control period to date is mainly due to lower income received from Crossrail Limited for financing charges earlier in the control period although there is a corresponding saving in interest costs incurred as reported in Statement 4.
- (11) Welsh Valleys finance charge – at the time of the determination 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 meaning no income has been generated in the current year of the control period to date. 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).
- (12) Depots income – revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators in Sussex and LNE as well as benefits following the development of Reading depot. Income has improved since last year following extra services offered, notably in Western, to facilitate the new Intercity Express Programme, and Sussex.

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

In £m 2017-18 prices unless stated

- (13) Other income – this category includes 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. Whilst the values are broadly in line with the regulator's determination there is a positive underlying performance. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed operations. The quinquennial regulatory control period for High Speed does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed set out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Despite this Network Rail have been able to enact efficiency strategies to outperform the targets in the High Speed determination. Income is lower than the previous year as the High Speed efficiency targets become more challenging.

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Arriva Trains Wales					
Variable Usage Charges	3.3	3.5	3.4	3.4	13.6
Traction Electricity Charges	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	4.2	4.4	4.3	4.2	17.1
Fixed Charges	19.5	15.0	15.9	18.6	69.0
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	10.6	10.8	10.7	10.5	42.6
Station QX	0.4	0.4	0.5	0.5	1.8
Other Charges	1.7	1.5	1.7	1.7	6.6
Total income	39.7	35.6	36.5	38.9	150.7

	2014-15	2015-16	2016-17	2017-18	CP5 Total
C2C					
Variable Usage Charges	1.8	2.0	2.1	2.2	8.1
Traction Electricity Charges	6.8	7.8	8.4	8.6	31.6
Electrification Asset Usage Charges	0.4	0.5	0.5	0.5	1.9
Capacity Charges	2.5	2.7	2.7	2.7	10.6
Fixed Charges	5.1	3.9	4.3	4.9	18.2
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	2.8	-	-	-	2.8
Station QX	-	-	0.1	0.1	0.2
Other Charges	1.2	1.4	1.1	1.4	5.1
Total income	20.6	18.3	19.2	20.4	78.5

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Chiltern					
Variable Usage Charges	2.2	2.4	2.5	2.6	9.7
Traction Electricity Charges	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	1.7	1.8	2.7	2.5	8.7
Fixed Charges	5.0	4.1	5.0	5.7	19.8
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	3.9	4.1	4.1	4.0	16.1
Station QX	-	-	-	-	-
Other Charges	11.9	14.5	18.1	18.8	63.3
Total income	24.7	26.9	32.4	33.6	117.6

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Cross Country					
Variable Usage Charges	10.2	10.4	10.2	9.9	40.7
Traction Electricity Charges	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	23.5	24.0	23.7	23.1	94.3
Fixed Charges	23.5	17.9	17.1	22.4	80.9
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	1.6	1.7	1.6	1.6	6.5
Station QX	3.1	3.6	4.4	4.4	15.5
Other Charges	-	-	-	-	-
Total income	61.9	57.4	57.0	61.4	237.7

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
East Coast Main Line Rail					
Variable Usage Charges	18.3	-	-	-	18.3
Traction Electricity Charges	19.8	-	-	-	19.8
Electrification Asset Usage Charges	1.6	-	-	-	1.6
Capacity Charges	34.0	-	-	-	34.0
Fixed Charges	26.3	-	-	-	26.3
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	7.8	-	-	-	7.8
Station QX	2.7	-	-	-	2.7
Other Charges	1.2	-	-	-	1.2
Total income	111.7	-	-	-	111.7

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Virgin East Coast					
Variable Usage Charges	1.7	18.9	17.9	17.7	56.2
Traction Electricity Charges	1.8	21.3	21.3	19.4	63.8
Electrification Asset Usage Charges	0.1	1.7	1.8	1.7	5.3
Capacity Charges	3.2	38.0	37.7	37.7	116.6
Fixed Charges	2.5	22.1	23.3	27.2	75.1
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	0.7	7.7	8.0	7.1	23.5
Station QX	0.3	2.6	2.6	2.7	8.2
Other Charges	0.1	1.3	1.4	1.5	4.3
Total income	10.4	113.6	114.0	115.0	353.0

	2014-15	2015-16	2016-17	2017-18	CP5 Total
East Midlands					
Variable Usage Charges	8.0	8.1	7.9	7.8	31.8
Traction Electricity Charges	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	18.2	18.7	18.4	18.0	73.3
Fixed Charges	16.0	12.1	12.7	15.0	55.8
Station Facility Charge	1.5	4.5	11.8	8.2	26.0
Station Long Term Charges	5.8	7.1	5.7	5.6	24.2
Station QX	0.3	0.3	0.3	0.3	1.2
Other Charges	7.1	7.0	7.1	7.0	28.2
Total income	56.9	57.8	63.9	61.9	240.5

	2014-15	2015-16	2016-17	2017-18	CP5 Total
First Capital Connect					
Variable Usage Charges	3.3	-	-	-	3.3
Traction Electricity Charges	10.0	-	-	-	10.0
Electrification Asset Usage Charges	0.7	-	-	-	0.7
Capacity Charges	18.1	-	-	-	18.1
Fixed Charges	10.0	-	-	-	10.0
Station Facility Charge	0.4	-	-	-	0.4
Station Long Term Charges	4.9	-	-	-	4.9
Station QX	2.1	-	-	-	2.1
Other Charges	1.0	-	-	-	1.0
Total income	50.5	-	-	-	50.5

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Govia Thameslink Railway					
Variable Usage Charges	4.6	12.9	16.7	17.5	51.7
Traction Electricity Charges	18.2	52.4	63.3	62.9	196.8
Electrification Asset Usage Charges	0.9	2.3	2.8	3.0	9.0
Capacity Charges	25.5	70.5	84.5	87.1	267.6
Fixed Charges	11.9	27.1	33.1	39.2	111.3
Station Facility Charge	0.5	3.0	4.7	4.4	12.6
Station Long Term Charges	5.6	24.3	37.1	33.3	100.3
Station QX	2.0	7.9	9.5	9.0	28.4
Other Charges	3.1	3.3	9.0	16.3	31.7
Total income	72.3	203.7	260.7	272.7	809.4

	2014-15	2015-16	2016-17	2017-18	CP5 Total
First Great Western					
Variable Usage Charges	20.0	20.3	20.4	20.0	80.7
Traction Electricity Charges	-	-	0.2	3.2	3.4
Electrification Asset Usage Charges	-	-	-	0.2	0.2
Capacity Charges	49.8	51.7	51.1	50.0	202.6
Fixed Charges	33.3	24.7	25.2	31.4	114.6
Station Facility Charge	2.0	2.1	2.1	2.0	8.2
Station Long Term Charges	17.6	17.7	17.5	17.0	69.8
Station QX	8.3	8.3	8.1	7.9	32.6
Other Charges	27.2	23.3	23.3	25.9	99.7
Total income	158.2	148.1	147.9	157.6	611.8

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Greater Anglia					
Variable Usage Charges	11.2	10.4	5.6	-	27.2
Traction Electricity Charges	33.3	26.6	14.2	-	74.1
Electrification Asset Usage Charges	2.3	2.0	1.1	-	5.4
Capacity Charges	18.6	15.1	7.9	-	41.6
Fixed Charges	28.0	18.5	10.2	-	56.7
Station Facility Charge	1.1	1.4	0.7	-	3.2
Station Long Term Charges	3.8	2.5	1.3	-	7.6
Station QX	3.0	2.1	1.1	-	6.2
Other Charges	3.0	4.6	2.6	-	10.2
Total income	104.3	83.2	44.7	-	232.2

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Abellio East Anglia					
Variable Usage Charges	-	-	4.6	10.1	14.7
Traction Electricity Charges	-	-	13.6	27.3	40.9
Electrification Asset Usage Charges	-	-	0.9	2.0	2.9
Capacity Charges	-	-	6.6	13.8	20.4
Fixed Charges	-	-	8.8	22.2	31.0
Station Facility Charge	-	-	0.6	1.3	1.9
Station Long Term Charges	-	-	0.9	2.1	3.0
Station QX	-	-	0.9	2.0	2.9
Other Charges	-	-	2.3	5.3	7.6
Total income	-	-	39.2	86.1	125.3

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
London Midland					
Variable Usage Charges	6.3	6.9	6.9	4.7	24.8
Traction Electricity Charges	14.7	16.6	16.0	9.2	56.5
Electrification Asset Usage Charges	0.9	1.0	1.0	0.7	3.6
Capacity Charges	36.3	36.4	36.5	24.9	134.1
Fixed Charges	19.4	14.8	14.8	10.9	59.9
Station Facility Charge	0.3	0.3	0.2	0.2	1.0
Station Long Term Charges	11.2	11.5	11.4	7.8	41.9
Station QX	5.0	6.2	7.1	4.8	23.1
Other Charges	3.5	3.5	3.4	2.4	12.8
Total income	97.6	97.2	97.3	65.6	357.7

	2014-15	2015-16	2016-17	2017-18	CP5 Total
West Midlands Trains					
Variable Usage Charges	-	-	-	2.0	2.0
Traction Electricity Charges	-	-	-	6.7	6.7
Electrification Asset Usage Charges	-	-	-	0.3	0.3
Capacity Charges	-	-	-	10.7	10.7
Fixed Charges	-	-	-	4.9	4.9
Station Facility Charge	-	-	-	0.1	0.1
Station Long Term Charges	-	-	-	3.9	3.9
Station QX	-	-	-	1.8	1.8
Other Charges	-	-	-	1.4	1.4
Total income	-	-	-	31.8	31.8

	2014-15	2015-16	2016-17	2017-18	CP5 Total
London Overground					
Variable Usage Charges	0.8	1.2	0.9	-	2.9
Traction Electricity Charges	4.3	7.4	4.9	-	16.6
Electrification Asset Usage Charges	0.1	0.3	0.2	-	0.6
Capacity Charges	2.4	3.1	2.0	-	7.5
Fixed Charges	3.9	4.1	2.7	-	10.7
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	3.7	4.5	2.8	-	11.0
Station QX	0.4	1.0	0.6	-	2.0
Other Charges	0.6	0.6	0.5	-	1.7
Total income	16.2	22.2	14.6	-	53.0

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Arriva Rail London					
Variable Usage Charges	-	-	0.5	1.4	1.9
Traction Electricity Charges	-	-	3.4	7.4	10.8
Electrification Asset Usage Charges	-	-	0.1	0.3	0.4
Capacity Charges	-	-	1.1	3.1	4.2
Fixed Charges	-	-	1.7	5.2	6.9
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	-	-	1.8	4.4	6.2
Station QX	-	-	0.4	1.0	1.4
Other Charges	-	-	0.3	0.9	1.2
Total income	-	-	9.3	23.7	33.0

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Merseyrail					
Variable Usage Charges	0.8	0.8	0.8	0.8	3.2
Traction Electricity Charges	5.8	5.9	5.7	5.7	23.1
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.4
Capacity Charges	0.5	0.5	0.5	0.5	2.0
Fixed Charges	3.5	2.6	2.7	3.1	11.9
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	8.2	8.2	8.1	7.9	32.4
Station QX	-	-	-	-	-
Other Charges	0.6	0.8	0.7	0.4	2.5
Total income	19.5	18.9	18.6	18.5	75.5

	2014-15	2015-16	2016-17	2017-18	CP5 Total
MTR Crossrail					
Variable Usage Charges	-	0.6	0.7	0.7	2.0
Traction Electricity Charges	-	3.6	4.3	4.2	12.1
Electrification Asset Usage Charges	-	0.2	0.2	0.3	0.7
Capacity Charges	-	3.0	3.6	3.6	10.2
Fixed Charges	-	1.7	2.1	2.4	6.2
Station Facility Charge	-	-	-	0.1	0.1
Station Long Term Charges	-	0.8	0.9	1.2	2.9
Station QX	-	0.6	0.7	0.8	2.1
Other Charges	-	-	-	-	-
Total income	-	10.5	12.5	13.3	36.3

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Northern					
Variable Usage Charges	4.6	5.1	5.6	5.2	20.5
Traction Electricity Charges	4.7	6.5	7.6	6.6	25.4
Electrification Asset Usage Charges	0.2	0.3	0.4	0.4	1.3
Capacity Charges	8.7	8.8	9.2	8.6	35.3
Fixed Charges	26.5	20.4	21.0	25.8	93.7
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	17.1	17.3	17.8	17.5	69.7
Station QX	3.2	3.2	3.5	3.5	13.4
Other Charges	5.5	5.4	6.8	6.8	24.5
Total income	70.5	67.0	71.9	74.4	283.8

	2014-15	2015-16	2016-17	2017-18	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

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Serco Sleeper					
Variable Usage Charges	-	0.7	0.8	0.6	2.1
Traction Electricity Charges	-	-	0.8	0.8	1.6
Electrification Asset Usage Charges	-	-	0.2	0.1	0.3
Capacity Charges	-	0.1	0.4	0.4	0.9
Fixed Charges	-	-	2.3	7.0	9.3
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	-	-	0.1	-	0.1
Station QX	-	-	0.1	0.1	0.2
Other Charges	-	-	-	-	-
Total income	-	0.8	4.7	9.0	14.5

	2014-15	2015-16	2016-17	2017-18	CP5 Total
South Eastern					
Variable Usage Charges	8.9	10.2	9.6	9.6	38.3
Traction Electricity Charges	34.3	36.6	39.9	40.9	151.7
Electrification Asset Usage Charges	1.0	1.1	1.1	1.2	4.4
Capacity Charges	17.1	17.9	16.4	16.0	67.4
Fixed Charges	24.6	18.8	19.9	23.7	87.0
Station Facility Charge	0.1	0.1	0.1	0.1	0.4
Station Long Term Charges	25.2	24.6	24.5	24.1	98.4
Station QX	6.0	5.8	8.9	9.0	29.7
Other Charges	7.9	7.6	8.4	8.1	32.0
Total income	125.1	122.7	128.8	132.7	509.3

	2014-15	2015-16	2016-17	2017-18	CP5 Total
South West Trains					
Variable Usage Charges	12.7	12.7	13.0	4.8	43.2
Traction Electricity Charges	39.0	41.4	40.9	10.5	131.8
Electrification Asset Usage Charges	1.1	1.1	1.2	0.5	3.9
Capacity Charges	27.1	27.4	27.1	9.9	91.5
Fixed Charges	26.1	19.9	21.1	9.2	76.3
Station Facility Charge	11.0	7.7	10.8	3.8	33.3
Station Long Term Charges	29.4	30.9	30.3	11.3	101.9
Station QX	4.5	5.2	4.9	1.6	16.2
Other Charges	8.1	10.9	9.6	3.4	32.0
Total income	159.0	157.2	158.9	55.0	530.1

	2014-15	2015-16	2016-17	2017-18	CP5 Total
South Western Railway					
Variable Usage Charges	-	-	-	7.9	7.9
Traction Electricity Charges	-	-	-	28.4	28.4
Electrification Asset Usage Charges	-	-	-	0.8	0.8
Capacity Charges	-	-	-	15.9	15.9
Fixed Charges	-	-	-	15.5	15.5
Station Facility Charge	-	-	-	6.4	6.4
Station Long Term Charges	-	-	-	18.9	18.9
Station QX	-	-	-	2.6	2.6
Other Charges	-	-	-	7.1	7.1
Total income	-	-	-	103.5	103.5

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Southern					
Variable Usage Charges	9.2	3.8	-	-	13.0
Traction Electricity Charges	1.0	0.4	-	-	1.4
Electrification Asset Usage Charges	44.0	18.1	-	-	62.1
Capacity Charges	19.2	4.6	-	-	23.8
Fixed Charges	2.3	0.9	-	-	3.2
Station Facility Charge	22.8	7.2	-	-	30.0
Station Long Term Charges	3.3	1.1	-	-	4.4
Station QX	1.7	0.5	-	-	2.2
Other Charges	133.3	49.0	-	-	182.3
Total income	-	-	-	-	-

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Transpennine					
Variable Usage Charges	4.6	4.7	4.3	3.2	16.8
Traction Electricity Charges	2.3	2.4	2.5	1.6	8.8
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.4
Capacity Charges	11.1	11.4	10.8	10.8	44.1
Fixed Charges	11.6	9.7	10.8	12.7	44.8
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	3.9	3.8	3.3	3.3	14.3
Station QX	1.5	1.8	1.6	1.5	6.4
Other Charges	0.1	0.1	0.1	0.1	0.4
Total Turnover	-	-	-	103.5	103.5

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Virgin West Coast					
Variable Usage Charges	30.6	29.9	29.8	28.6	118.9
Traction Electricity Charges	40.2	43.7	48.7	35.7	168.3
Electrification Asset Usage Charges	3.0	3.1	3.1	3.0	12.2
Capacity Charges	70.4	71.3	70.5	68.0	280.2
Fixed Charges	44.8	34.1	35.9	41.7	156.5
Station Facility Charge	9.1	9.2	9.1	9.0	36.4
Station Long Term Charges	11.5	11.6	11.5	11.4	46.0
Station QX	5.9	6.1	6.5	6.4	24.9
Other Charges	1.5	1.5	1.6	0.1	4.7
Total Turnover	217.0	210.5	216.7	203.9	848.1

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Consolidated Non-Franchised Train Operators					
Variable Usage Charges	2.7	4.8	5.8	5.6	18.9
Traction Electricity Charges	3.3	1.4	2.7	2.9	10.3
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	1.4	1.8	1.9	1.8	6.9
Fixed Charges	20.0	19.9	19.5	19.5	78.9
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	1.6	1.2	1.5	1.4	5.7
Station QX	0.7	(0.2)	0.2	0.3	1.0
Other Charges	0.2	0.2	0.2	0.3	0.9
Total Turnover	29.9	29.1	31.8	31.8	122.6

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Consolidated Charter Train Operators					
Variable Usage Charges	0.9	0.6	0.6	0.6	2.7
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	0.6	0.6	2.7

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Consolidated Freight Operating Companies					
Variable Usage Charges	54.7	51.6	46.7	49.1	202.1
Traction Electricity Charges	6.9	5.4	5.2	6.3	23.8
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.4
Capacity Charges	3.3	3.9	3.7	3.6	14.5
Fixed Charges	-	-	-	-	-
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	-	-	-	-	-
Station QX	-	-	-	-	-
Other Charges	7.4	4.1	3.7	4.1	19.3
Total Turnover	72.4	65.1	59.4	63.2	260.1

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

In £m 2017-18 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. In addition, amounts in this statement for Other charges and Station long term charges for Train operating companies include facility charges which are included in Statement 6a and 6b within Facility charges.
- (2) The amounts reported in the tables do not include any payments made to/ received from operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) Fixed Charges – there has been an increase in Fixed charges across most operators compared to the previous year. This is part of the overall switch of higher Fixed charges offsetting reductions in Grant income received from governments as set out in Statement 6a.
- (5) Changes in Freight income and Open access operator income are discussed in more detail in Statement 6a.
- (6) In 2014/15 Govia Thameslink Railway replaced First Capital Connect as the main operator of the Thameslink service. In addition, in 2015/16 the results of the Southern franchise were consolidated into Govia Thameslink's results. Therefore, there is no income for First Capital Connect after 2014/15 whilst Southern's income also decreases significantly from 2015/16. Conversely, income for Govia Thameslink Railway increases over the control period as the revenue is recognised in this category. Compared to the previous year, Govia has some additional income in Other charges relating to new depot facilities. This has been partly offset by reduced Station Long Term Charges. The 2016/17 figures benefitted from settlement of previous claims and so income was artificially high in that year.
- (7) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, no income is reported for East Coast Main Line Rail after 2014/15, whilst the income for Virgin East Coast increases significantly after 2014/15.
- (8) In 2015/16 MTR Crossrail started to operate services so was shown in Statement 6c in the Regulatory financial statements for the first time that 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 in 2015/16 compared to 2014/15.
- (9) Abellio East Anglia replaced Greater Anglia as the franchise operator during 2016/17 which accounts for the movements between 2015/16 and 2016/17 for these two operators.
- (10) In 2015/16 a number of stations were transferred to c2c on a long-term lease. Therefore, the station income paid by this operator to Network Rail is lower in 2015/16 and 2016/17 compared to 2014/15.
- (11) In 2016/17, Arriva Rail London assumed responsibility for the London overground concession previously run by London Overground Rail Operations. Therefore, there is a significant decrease in the revenue reported from London Overground in 2016/17 compared to 2015/16 with a corresponding increase in Arriva Rail London. A full year of income is included for Arriva Rail London in 2017/18, which accounts for the majority of the increase compared to the prior year.

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

In £m 2017-18 prices unless stated

- (12) In 2016/17 Station facility charges paid by East Midlands Trains increased as a result of extra income recognised for additional services offered at East Midlands Parkway station. This included settlement of charges relating to services rendered in 2015/16. Consequently, income recognised in the current year was lower than 2016/17.
- (13) In the current year, West Midlands Trains replaced London Midland as the franchise operator on the London North West route and so is included in the Regulatory Financial Statements for the first time this year. This also results in a decrease in London Midland income compared to the previous year.
- (14) In the current year, South Western Railway replaced South West Trains as the principle operator in the Wessex route. Consequently, the income earned by the latter is shown for the first time this year, whilst the former has a noticeable year-on-year decrease in their turnover in the above table.
- (15) Other charges in First Great Western increased in the year as a result of new depot facilities provided to facilities the Intercity Express Programme.

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

In £m 2017-18 prices unless stated

	2017-18			Cumulative			2016-17
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	250	200	(50)	998	865	(133)	253
Signalling shift managers	16	13	(3)	64	54	(10)	12
Local operations managers	19	15	(4)	76	60	(16)	18
Controllers	39	30	(9)	143	122	(21)	35
Electrical control room operators	13	11	(2)	51	42	(9)	14
Total signaller expenditure	337	269	(68)	1,332	1,143	(189)	332
Non-signaller expenditure							
Mobile operations managers	38	28	(10)	141	120	(21)	36
Managed stations	56	34	(22)	219	146	(73)	58
Performance	12	13	1	56	54	(2)	14
Customer relationship executives	8	6	(2)	25	27	2	5
Route enhancement managers	-	-	-	5	-	(5)	-
Weather	14	17	3	54	73	19	12
Other	38	11	(27)	140	47	(93)	40
Operations delivery	6	-	(6)	20	-	(20)	5
HQ - Operations services	1	-	(1)	4	-	(4)	1
HQ - Performance and planning	2	-	(2)	21	-	(21)	14
HQ - Stations and customer services	2	-	(2)	4	-	(4)	1
HQ - Other	82	26	(56)	198	109	(89)	39
Other operating income	(44)	(18)	26	(143)	(78)	65	(28)
Total non-signaller expenditure	215	117	(98)	744	498	(246)	197
Total network operations expenditure	552	386	(166)	2,076	1,641	(435)	529
Support costs							
Core support costs							
Human resources	15	52	37	107	227	120	16
Information management	55	55	-	237	234	(3)	57
Government and corporate affairs	8	17	9	44	71	27	10
Group strategy	7	11	4	26	43	17	3
Finance	22	24	2	80	106	26	23
Business services	15	13	(2)	66	53	(13)	24
Accommodation	69	67	(2)	295	280	(15)	74
Utilities	45	40	(5)	171	163	(8)	47
Insurance	33	43	10	127	182	55	(8)
Legal and inquiry	5	5	-	25	24	(1)	7
Safety and sustainable development	17	7	(10)	81	33	(48)	18
Strategic sourcing	6	8	2	26	36	10	6
Business change	4	3	(1)	8	14	6	-
Other corporate functions	37	3	(34)	134	13	(121)	32
Core support costs	338	348	10	1,427	1,479	52	309
Other support costs							
Asset management services	26	40	14	125	159	34	30
Network Rail telecoms	29	30	1	147	142	(5)	28
National delivery service	-	(1)	(1)	-	10	10	-
Infrastructure Projects	(21)	-	21	(91)	-	91	(24)
Commercial property	5	(4)	(9)	(14)	(14)	-	(5)
Group costs	(22)	(5)	17	(160)	(24)	136	(25)
Total other support costs	17	60	43	7	273	266	4
Total support costs	355	408	53	1,434	1,752	318	313
Traction electricity, industry costs and rates							
Traction electricity	293	413	120	1,181	1,405	224	289
Business rates	194	169	(25)	647	617	(30)	151
British transport police costs	78	64	(14)	319	271	(48)	83
RSSB costs	9	8	(1)	36	33	(3)	9
ORR licence fee and railway safety levy	15	16	1	62	65	3	14
Reporters fees	1	3	2	5	12	7	1
Other industry costs	4	2	(2)	15	8	(7)	5
Total traction electricity, industry costs and rates	594	675	81	2,265	2,411	146	552
Total network operations expenditure, support costs, traction electricity, industry costs and rates	1,501	1,469	(32)	5,775	5,804	29	1,394

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are slightly higher than the determination assumed this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised, partly offset by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a) and lower costs in central functions.
- (3) 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.

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

In £m 2017-18 prices unless stated

- (4) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are slightly higher than the previous year with the largest contribution arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.
- (6) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.

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

In £m 2017-18 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 Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are in line with the previous year as many of the transfers of responsibilities were in place for 2016/17.
- (8) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors. Costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.
- (9) 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 this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16, part of the Group strategy team and Business Services in the previous year.
- (10) Business services – costs in this category are broadly in line with the determination assumption. The slightly higher value is due to some of the responsibilities for professional training and development (including apprentices) transferring from Human resources, which contributes to the saving in that category. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and a portion of these costs are now included within Business services who manage the scheme. This transfer of activity also accounts for most of the variance to the regulator's assumption in the control period to date. Costs in the year are lower than the previous year as many of the training and apprentice costs are being recharged elsewhere in the organisation so that route and department costs are more reflective of the resources they consume, with increases across most functions but especially in the routes (which is included in Other corporate functions).
- (11) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be over 15 per cent lower than the CP4 exit position by 2017/18, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the regulatory target. Costs are slightly lower than the previous year which included some non-recurring costs.
- (12) Utilities – costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are lower than the previous year reflecting favourable market movements.

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

In £m 2017-18 prices unless stated

- (13) Insurance - costs are favourable to the determination this year and the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (14) Legal and inquiry – costs for the current year and control period to date are in line with the determination. This is a combination of increases and decreases. The increases have arisen largely from extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. Earlier in the control period the Business Change activities were led by this department. These extra items have been offset by some efficiencies over and above the regulatory expectation and devolution of responsibilities the routes (and so the costs are shown in Other corporate functions). Expenses in the current year are lower than the previous year as Business Change is disclosed separately this year. This reflects the growing importance of this department in driving efficiencies and transformation in the business as Network Rail prepares for the challenges of control period 6.
- (15) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to enhanced focus on safety. 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 this area. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.
- (16) 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, resulting in extra costs in the Other corporate functions category. Costs in the current year are consistent with the previous year.
- (17) Business change – whilst costs for the current year are in line with the regulator's expectation, costs for the control period to date are lower than the determination. This is because responsibilities for Business change activities resided within other functions (primarily Legal and inquiry). However, to reflect the increase in the size and scope of these activities a new department has been created to drive efficiencies in the business as it prepares for control period 6.

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

In £m 2017-18 prices unless stated

- (18) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are higher than the previous year reflecting increased training and apprentices costs being charged directly to routes, with a corresponding reduction in the Business services category.
- (19) 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 lower than the previous year mostly due to reductions in the costs of supporting the Digital Railway initiative as more of the work in this area is now focused on delivery of capital projects and so the costs are included in capex.
- (20) Network Rail telecoms – costs for the year and control period are broadly in line with the determination. The slightly higher costs in the control period to date are mainly due to some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible.
- (21) National Delivery Services – costs are in line with the previous year and the regulatory expectation. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Costs are favourable in the control period to date as savings have been made at a quicker rate than the regulator assumed in the PR13 settlement.
- (22) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (23) Commercial Property – net costs for the year are higher than the regulatory estimate. This is largely due to a significant amount of doubtful debts recognised this year. These extra costs in the current year have negated savings made earlier in the control period which had been achieved mainly 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). Net costs in the current year are higher than the previous year due to the aforementioned increase in doubtful debts.

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

In £m 2017-18 prices unless stated

- (24) 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 mainly due to lower performance related payments to staff, re-organisation costs in the current year than the regulator expected as well as receipt of incentive payments for completion of parts of the Thameslink programme in line with agreed timescales. The determination assumed that Group would receive credits of c. £32m 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. £27m 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 mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is in line with the previous year.
- (25) 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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs partly offset by extra British Transport Police costs and higher Business rates. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media.
- (26) 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 lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are broadly in line with the previous year.

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

In £m 2017-18 prices unless stated

- (27) 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 through the Opex memorandum account mechanism (refer to Statement 10). Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency. As a result, Network Rail expects costs to exceed the regulatory assumption for the final year of the control period too.
- (28) British Transport Police costs - expenses in the year are higher than the determination assumed. 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. This year's costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including Manchester Victoria and London Bridge). In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year are lower than the previous year as a result of some rebates Network Rail received from British Transport Police Authority following finalisation of prior year cost allocations to different industry members.
- (29) RSSB – costs for this industry wide organisation are allocated to companies based on size (using turnover as a proxy). The level of contribution that Network Rail is required to make under this mechanism has been slightly higher than the regulator's expectation across the control period to date. Network Rail has limited ability to influence the costs payable, as the RSSB acts as an independent organisation within the industry.
- (30) Reporters fees – the determination assumed that the costs incurred under this category would be relatively evenly phased across the control period. However, in practice, most of the Reporters work is completed to support the periodic review setting of access charges and so are expected to be weighted towards the final year of the control period.
- (31) Other industry costs – this relates to costs Network Rail contribute to the Rail Delivery Group (RDG) a pan-industry organisation seeking to promote rail and allow the industry's disparate members to act in concert. Extra contributions were required this year (and in the control period to date) compared to the regulator's assumption as the role and activities of the RDG have grown significantly since the regulator prepared the determination.

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

In £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	226	270	269	268	275
MOMS	24	33	34	38	39
Control	39	47	47	48	54
Planning & Performance Staff Costs	30	29	36	36	43
Managed Stations Staff Costs	17	17	18	24	20
Operations Management Staff Costs	21	24	26	22	24
Other	117	57	89	93	97
Total operations & customer services costs	474	477	519	529	552
Total Network Operations	474	477	519	529	552
Support					
Human resources					
Functional support	29	15	16	15	14
Training (inc Westwood)	20	11	8	-	-
Graduates	2	-	2	-	-
Apprenticeships	6	8	8	-	-
Other	4	6	1	1	1
Total human resources	61	40	35	16	15
Information management					
Support	7	6	1	5	5
Projects	2	1	1	-	1
Licences	-	-	-	-	-
Business operations	49	58	57	52	49
Other	-	-	-	-	-
Total information management	58	65	59	57	55
Finance	18	17	18	23	22
Business Change	3	2	2	-	4
Contracts & Procurement	8	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	6	6	6	6
Planning & development	15	8	6	3	7
Safety & compliance	15	-	-	-	-
Other corporate services	52	15	16	16	18
Commercial property	104	74	65	69	74
Infrastructure Projects	(55)	(17)	(27)	(24)	(21)
Route Services	12	17	17	18	16
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	137	-	-	-	-
National delivery service	3	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	40	38	47	45
Network Rail Telecoms	-	48	42	28	29
Digital Railway	-	16	21	18	11
Safety Technical & Engineering	-	40	39	30	32
Government & Corporate Affairs	-	15	11	10	8
Business Services	-	15	13	24	15
Route Asset Management	-	-	1	(2)	3
Legal and inquiry	-	6	7	7	5
Group/central					
Pensions	1	-	-	-	-
Insurance	35	47	54	(8)	33
Redundancy/reorganisation costs	66	16	10	10	10
Staff incentives/Bonus Reduction	4	(24)	(6)	-	(8)
Accommodation & Support Recharges	(3)	(26)	(26)	(24)	(24)
Commercial claims settlements	-	-	(31)	(9)	(7)
ORR financial penalty	77	(23)	-	-	-
Other	2	2	(4)	(2)	7
Total group/central costs	182	(8)	(3)	(33)	11
Total support	613	399	366	313	355
Total network operations and support costs	1,087	876	885	842	907

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and support costs. Maintenance costs are addressed in Statement 8a, Traction electricity; industry costs and rates are discussed in Statement 7a.
- (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.
- (3) Network Operations – costs are slightly higher than the previous year with the largest contribution arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling.
- (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 core business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.
- (5) Human Resources – costs are in line with the previous year but noticeably lower than earlier in the control period. As noted in last year's Regulatory financial statements many of the responsibilities have been transferred from Human resources department to other areas of the organisation. As part of Network Rail's devolution strategy certain training costs have been moved from the centre to the routes (the Route Services heading in this statement). In addition, as the above table shows there is a marked decrease in the Training, Graduates and Apprenticeships categories compared to earlier in the control period due to the responsibility for these activities moving to Business services.
- (6) Finance – costs increases this period have been the result of responsibilities transferring from other cost categories, including Railway Heritage Trust costs, parts of planning & regulation and parts of Shared Services. This extra scope has been offset by efficiencies made from improved working practices and tight control on headcount and staff costs.
- (7) Business change – the decrease in costs compared to 2015/16 is the result of responsibility for this area being transferred to the Legal and inquiry department. As part of Network Rail's planning for CP6 a new Transformation and Efficiency directorate has been created. These costs are included in the Business change category from 2017/18.
- (8) Planning & development – the costs in this area decreased in 2016/17 as some responsibilities were transferred to the Finance department. This year, costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.

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

In £m 2017-18 prices unless stated

- (9) Utilities – the costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. As noted in the prior year's Regulatory financial statements the comparatively lower costs in 2015/16 was due to lower market rates and some one-off benefits.
- (10) Telecoms – costs are broadly in line with the previous year. There is a notable decrease in costs in 2016/17 which was largely driven by renegotiation of data contracts and licences (following expiration of current arrangements), reductions in the volume of licences as alternative solutions employed, as well as generation of extra income through selling spare telecoms network capacity to external entities.
- (11) Digital railway – costs are lower than the previous year. As noted in the prior year's Regulatory financial statements, expenditure in 2015/16 included substantial programme development costs 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. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. Since then, more of the activity has been focused on delivery of physical projects and so is included within capital projects.
- (12) Safety, Technical & Engineering - costs are in line with the previous year. There is a perceptible decrease in costs from 2016/17. Earlier years of the control period included costs for the design and implementation of 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.
- (13) Government & corporate affairs - costs are similar to the previous year. The reduction in costs compared to earlier years of the control period is mostly due to devolution of communications staff to the routes so they can better understand and support the local route teams and associated communities. In addition, some efficiencies have been achieved through increased use of social media rather than traditional channels, reflecting societal changes influencing the optimal way to engage with the public.
- (14) Business services - costs in the year are lower than the previous year mainly arising from recharges made by Business services to other parts of the business for training and apprentices so that route and department costs are more reflective of the resources they consume. These costs are now included in many of the Support lines, such as Other corporate services and Route Asset Management which has resulted in a reduction in costs compared to the previous years.
- (15) Route asset management – during the year, the level of renewals work was less than Network Rail planned. As a result Route asset management staff involved in renewals work had fewer projects to work on, meaning more of their time was directed towards other activities this year compared to 2016/17.
- (16) Legal and inquiry – as noted above, Business change costs have increased this year as a result of the new Transformation and Efficiency directorate being included separately. Previously these costs were included within Legal and inquiry and so costs in this category have reduced compared to the year.

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

In £m 2017-18 prices unless stated

- (17) Group – Insurance – costs are higher than last year. As reported in last year's Regulatory financial statements there was a non-recurring benefit from the year end actuarial review of liabilities, when the level of provisions for outstanding claims was reduced. Costs this year are lower than earlier in the control period as in 2016/17 Network Rail altered its insurance strategy to fall more in line with the rest of government. As a result premiums are lower, but more risk is retained by the organisation. This change in strategy was necessitated by much higher market premiums than the regulator assumed in the determination. Severe weather events towards the end of control period 4 had a high profile impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. In addition, there have been overall increases in market premiums across the entire insurance industry (including increases in insurance premium tax imposed by the government). As a result the business case for procuring a lower level of insurance cover became more compelling. 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 or damage caused by Network Rail's road fleet) which are now more expensive.
- (18) 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 in the last year of CP4. As part of this reorganisation initiative there was costs incurred in 2014/15 too. Since then, there have been fewer restructures and so costs are lower. As part of the latest pay and conditions negotiations with trade unions, it was agreed that there would be no compulsory redundancies for front line staff until at least 2019. Expenses in the current year includes extra staff costs relating to holiday entitlement following a legally-binding ruling made by an Employment Tribunal on the Dudley County Council versus Willets et al case during the year.
- (19) 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. The credit balance in 2015/16 relates to lower expected pay-outs for long-term incentive plans to be made as a result of performance not meeting corporate targets. The credit in the current year mostly relates to Network Rail's Remuneration Committee reducing the performance related pay in relation to the 2016/17 targets. The planned costs of these schemes were 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 was recognised in Group.
- (20) Group – commercial claims settlements – as noted in the previous year's Regulatory financial statements Network Rail benefitted from some non-recurring savings as a result of commercial agreements being made with third parties in 2015/16. 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. In 2016/17, there were further contractual refinements for which Network Rail were compensated. The current year largely relates to receipts from delivering parts of the Thameslink programme to agreed timescales.

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

In £m 2017-18 prices unless stated

- (21) 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, after the conclusion of the control period, 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).
- (22) Group - Other – following changes in legislation introduced by the government with effect from April 2017, companies are charged 0.5 per cent of their pay bill to fund the government's Apprentice Levy. The costs of this extra tax are included in Group for the first time this year. It is planned for these costs to be recognised in the costs of the each department from 2018/19. Whilst Network Rail are eligible to apply for funding through the Apprentice Levy it would require an unrealistic number of apprentices to be recruited each year to neutralise the financial impact of the levy. The costs within the Other category also include extra costs

Statement 7c: Insurance reconciliation, England & Wales

In £m 2017-18 prices unless stated

A) Reconciliation of costs	Market based insurance			Self insurance Claims recognised				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	2	4	0	5	0	2
Business interruption	0	0	2	7	0	0	0	2
Terrorism	0	0	3	0	0	0	0	3
Employer's liability	0	0	0	1	0	0	0	0
Public & products liability	0	0	2	7	1	13	0	3
Motor	0	0	1	1	0	0	0	1
Construction all risks	2	0	1	2	2	1	0	3
Other cover	0	0	1	0	0	1	1	2
Investment return	0	0	0	0	0	0	1	1
Total	2	0	12	22	3	20	2	17

Total insurance recognised in:

Schedule 4 & 8	0	0	2	7	0	0	0	2
Operations	0	0	0	0	0	0	0	0
Support costs	2	0	9	15	3	21	2	14
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	11	22	3	21	2	16

B) Analysis of Network Rail Insurance Limited

Profit/(loss) derived from:	2017-18	2016-17	2015-16	2014-15	Cumulative
Operations	20	53	(49)	(25)	(1)
Investment revenues	1	2	2	1	6
Finance costs	0	0	0	0	0
Profit/(loss) before tax	21	55	(47)	(24)	5
Tax	0	0	0	0	0
Profit/(loss) attributable to shareholders	21	55	(47)	(24)	5

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

In £m 2017-18 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 once again 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) 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) Although, this year Network Rail Insurance Limited has made a profit (unaudited) it is lower than the profits made in the previous year. This benefitted from some non-recurring gains following a full actuarial assessment of expected liabilities under different insurance policies. 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.

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

In £m 2017-18 prices unless stated

Actual spend in year

	2017-18				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	250	0	0	250	200	0	0	200	(50)	0	0	(50)
Signalling shift managers	16	0	0	16	13	0	0	13	(3)	0	0	(3)
Local operations managers	19	0	0	19	15	0	0	15	(4)	0	0	(4)
Controllers	40	(1)	0	39	30	0	0	30	(10)	1	0	(9)
Electrical control room operators	14	(1)	0	13	11	0	0	11	(3)	1	0	(2)
Total signaller expenditure	339	(2)	0	337	269	0	0	269	(70)	2	0	(68)
Non-signaller expenditure												
Mobile operations managers	39	(1)	0	38	28	0	0	28	(11)	1	0	(10)
Managed stations	56	0	0	56	34	0	0	34	(22)	0	0	(22)
Performance	21	(9)	0	12	13	0	0	13	(8)	9	0	1
Customer relationship executives	9	(1)	0	8	6	0	0	6	(3)	1	0	(2)
Route enhancement managers	8	(8)	0	0	0	0	0	0	(8)	8	0	0
Weather	14	0	0	14	17	0	0	17	3	0	0	3
Other	48	(10)	0	38	11	0	0	11	(37)	10	0	(27)
Operations delivery	41	(35)	0	6	0	0	0	0	(41)	35	0	(6)
HQ - Operations services	1	0	0	1	0	0	0	0	(1)	0	0	(1)
HQ - Performance and planning	17	(15)	0	2	0	0	0	0	(17)	15	0	(2)
HQ - Stations and customer services	2	0	0	2	0	0	0	0	(2)	0	0	(2)
HQ - Other	88	(6)	0	82	26	0	0	26	(62)	6	0	(56)
Other operating income	0	0	(44)	(44)	0	0	(18)	(18)	0	0	26	26
Total non-signaller expenditure	344	(85)	(44)	215	135	0	(18)	117	(209)	85	26	(98)
Total network operations expenditure	683	(87)	(44)	552	404	0	(18)	386	(279)	87	26	(166)

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

In £m 2017-18 prices unless stated

Actual spend in year

	2017-18				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	17	0	(2)	15	54	0	(2)	52	37	0	0	37
Information management	76	(18)	(3)	55	59	0	(4)	55	(17)	18	(1)	0
Government and corporate affairs	8	0	0	8	17	0	0	17	9	0	0	9
Group strategy	15	(7)	(1)	7	11	0	0	11	(4)	7	1	4
Finance	18	5	(1)	22	24	0	0	24	6	(5)	1	2
Business services	26	(4)	(7)	15	14	0	(1)	13	(12)	4	6	(2)
Accommodation	69	0	0	69	67	0	0	67	(2)	0	0	(2)
Utilities	54	0	(9)	45	40	0	0	40	(14)	0	9	(5)
Insurance	33	0	0	33	43	0	0	43	10	0	0	10
Legal and inquiry	5	0	0	5	5	0	0	5	0	0	0	0
Safety and sustainable development	21	(3)	(1)	17	7	0	0	7	(14)	3	1	(10)
Strategic sourcing	6	0	0	6	21	0	(13)	8	15	0	(13)	2
Business change	4	0	0	4	3	0	0	3	(1)	0	0	(1)
Other corporate functions	79	0	(42)	37	3	0	0	3	(76)	0	42	(34)
Core support costs	431	(27)	(66)	338	368	0	(20)	348	(63)	27	46	10
Other support costs												
Asset management services	67	(34)	(7)	26	59	0	(19)	40	(8)	34	(12)	14
Network Rail telecoms	54	(19)	(6)	29	30	0	0	30	(24)	19	6	1
National delivery service	0	0	0	0	26	0	(27)	(1)	26	0	(27)	(1)
Infrastructure projects	415	(434)	(2)	(21)	0	0	0	0	(415)	434	2	21
Commercial property	57	(15)	(37)	5	27	0	(31)	(4)	(30)	15	6	(9)
Group costs	(2)	(9)	(11)	(22)	1	0	(6)	(5)	3	9	5	17
Total other support costs	591	(511)	(63)	17	143	0	(83)	60	(448)	511	(20)	43
Total support costs	1,022	(538)	(129)	355	511	0	(103)	408	(511)	538	26	53

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

In £m 2017-18 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	1,001	(3)	0	998	865	0	0	865	(136)	3	0	(133)
Signalling shift managers	65	(1)	0	64	54	0	0	54	(11)	1	0	(10)
Local operations managers	79	(3)	0	76	60	0	0	60	(19)	3	0	(16)
Controllers	149	(6)	0	143	122	0	0	122	(27)	6	0	(21)
Electrical control room operators	55	(4)	0	51	42	0	0	42	(13)	4	0	(9)
Total signaller expenditure	1,349	(17)	0	1,332	1,143	0	0	1,143	(206)	17	0	(189)
Non-signaller expenditure												
Mobile operations managers	146	(5)	0	141	120	0	0	120	(26)	5	0	(21)
Managed stations	217	2	0	219	146	0	0	146	(71)	(2)	0	(73)
Performance	66	(10)	0	56	54	0	0	54	(12)	10	0	(2)
Customer relationship executives	29	(4)	0	25	27	0	0	27	(2)	4	0	2
Route enhancement managers	39	(34)	0	5	0	0	0	0	(39)	34	0	(5)
Weather	62	(8)	0	54	73	0	0	73	11	8	0	19
Other	234	(94)	0	140	47	0	0	47	(187)	94	0	(93)
Operations delivery	141	(121)	0	20	0	0	0	0	(141)	121	0	(20)
HQ - Operations services	4	0	0	4	0	0	0	0	(4)	0	0	(4)
HQ - Performance and planning	60	(39)	0	21	0	0	0	0	(60)	39	0	(21)
HQ - Stations and customer services	4	0	0	4	0	0	0	0	(4)	0	0	(4)
HQ - Other	244	(46)	0	198	109	0	0	109	(135)	46	0	(89)
Other operating income	1	0	(144)	(143)	0	0	(78)	(78)	(1)	0	66	65
Total non-signaller expenditure	1,247	(359)	(144)	744	576	0	(78)	498	(671)	359	66	(246)
Total network operations expenditure	2,596	(376)	(144)	2,076	1,719	0	(78)	1,641	(877)	376	66	(435)

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

In £m 2017-18 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	123	(9)	(7)	107	235	0	(8)	227	112	9	(1)	120
Information management	340	(91)	(12)	237	251	0	(17)	234	(89)	91	(5)	(3)
Government and corporate affairs	51	(7)	0	44	71	0	0	71	20	7	0	27
Group strategy	66	(36)	(4)	26	43	0	0	43	(23)	36	4	17
Finance	73	8	(1)	80	106	0	0	106	33	(8)	1	26
Business services	89	(10)	(13)	66	56	0	(3)	53	(33)	10	10	(13)
Accommodation	298	(3)	0	295	280	0	0	280	(18)	3	0	(15)
Utilities	225	(2)	(52)	171	163	0	0	163	(62)	2	52	(8)
Insurance	127	0	0	127	182	0	0	182	55	0	0	55
Legal and inquiry	26	(1)	0	25	24	0	0	24	(2)	1	0	(1)
Safety and sustainable development	114	(27)	(6)	81	33	0	0	33	(81)	27	6	(48)
Strategic sourcing	26	0	0	26	86	0	(50)	36	60	0	(50)	10
Business change	8	0	0	8	14	0	0	14	6	0	0	6
Other corporate functions	523	(203)	(186)	134	13	0	0	13	(510)	203	186	(121)
Core support costs	2,089	(381)	(281)	1,427	1,557	0	(78)	1,479	(532)	381	203	52
Other support costs												
Asset management services	277	(128)	(24)	125	237	0	(78)	159	(40)	128	(54)	34
Network Rail telecoms	252	(78)	(27)	147	142	0	0	142	(110)	78	27	(5)
National delivery service	(5)	1	4	0	105	0	(95)	10	110	(1)	(99)	10
Infrastructure projects	1,601	(1,667)	(25)	(91)	0	0	0	0	(1,601)	1,667	25	91
Commercial property	194	(61)	(147)	(14)	108	0	(122)	(14)	(86)	61	25	0
Group costs	(23)	(14)	(123)	(160)	(1)	0	(23)	(24)	22	14	100	136
Total other support costs	2,296	(1,947)	(342)	7	591	0	(318)	273	(1,705)	1,947	24	266
Total support costs	4,385	(2,328)	(623)	1,434	2,148	0	(396)	1,752	(2,237)	2,328	227	318

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and Support costs. Maintenance costs are addressed in Statement 8a, Traction electricity; industry costs and rates are discussed in Statement 7a.
- (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.
- (3) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. There are also some extra managed stations costs as responsibility for stations (Reading and Bristol) have been transferred to Network Rail or stations (such as Birmingham New Street, London Euston and London Bridge) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes, notably in the South East (Kent and Sussex routes). These parts of the network are extremely congested, as the industry has responded to customer demand by increasing capacity. However, this congestion increases the risk that any infrastructure or train failure can have a knock-on effect across a number of services causing passenger delay. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and T timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are slightly higher than the previous year with the largest contribution arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling.

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

In £m 2017-18 prices unless stated

- (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 core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.
- (5) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (6) 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 Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are in line with the previous year as many of the transfers of responsibilities were in place for 2016/17.
- (7) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors. Costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.
- (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 this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16, part of the Group strategy team and Business Services in the previous year.

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

In £m 2017-18 prices unless stated

- (9) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be over 15 per cent lower than the CP4 exit position by 2017/18, and although costs have been saved (primarily from relocation of functions away from London to, for example, Milton Keynes), the rate of saving is lower than the regulatory target. This was mostly due to new office space acquired in London in 2014/15 for the Kent and Sussex routes. Costs are slightly lower than the previous year which included some non-recurring costs.
- (10) Utilities – costs are higher than the determination this year which has compounded the overspends in earlier years of the control period. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are lower than the previous year reflecting favourable market movements.
- (11) Insurance - costs are favourable to the determination this year and the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (12) Legal and inquiry – costs for the current year and control period to date are in line with the determination. This is a combination of increases and decreases. The increases have arisen largely from extra costs required to comply with the Freedom of Information Act, which was unforeseen at the time of the determination. Earlier in the control period the Business Change activities were led by this department. These extra items have been offset by some efficiencies over and above the regulatory expectation and devolution of responsibilities to the routes (and so the costs are shown in Other corporate functions). Expenses in the current year are lower than the previous year as Business Change is disclosed separately this year. This reflects the growing importance of this department in driving efficiencies and transformation in the business as Network Rail prepares for the challenges of control period 6.
- (13) Safety and sustainable development - costs are much higher than the determination in the year and the control period to date due to enhanced focus on safety. 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 this area. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.

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

In £m 2017-18 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, resulting in extra costs in the Other corporate functions category. Costs in the current year are consistent with the previous year.
- (15) Business change – whilst costs for the current year are in line with the regulator's expectation, costs for the control period to date are lower than the determination. This is because responsibilities for Business change activities resided within other functions (primarily Legal and inquiry). However, to reflect the increase in the size and scope of these activities a new department has been created to drive efficiencies in the business as it prepares for control period 6.
- (16) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are higher than the previous year reflecting increased training and apprentices costs being charged directly to routes, with a corresponding reduction in the Business services category.
- (17) 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 lower than the previous year mostly due to reductions in the costs of supporting the Digital Railway initiative as more of the work in this area is now focused on delivery of capital projects and so the costs are included in capex.
- (18) Network Rail telecoms – costs for the year and control period are broadly in line with the determination. The slightly higher costs in the control period to date are mainly due to some one-off project costs associated with FTN/ GSM-R incurred in 2014/15. The determination assumed that this programme would be completed in the prior control period and that integration costs in CP5 would be negligible.
- (19) National Delivery Services – costs are in line with the previous year and the regulatory expectation. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance and capital activities. Costs are favourable in the control period to date as savings have been made at a quicker rate than the regulator assumed in the PR13 settlement.

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

In £m 2017-18 prices unless stated

- (20) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (21) Commercial Property – net costs in the year are higher than the regulatory estimate. This is largely due to a significant amount of doubtful debts recognised this year. These extra costs in the current year have negated savings made earlier in the control period which had been achieved mainly 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). Net costs in the current year are higher than the previous year due to the aforementioned increase in doubtful debts.
- (22) 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 mainly due to lower performance related payments to staff, re-organisation costs in the current year than the regulator expected as well as receipt of incentive payments for completion of parts of the Thameslink programme in line with agreed timescales. The determination assumed that Group would receive credits of c. £32m 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. £27m 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 mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is in line with the previous year.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	527	379	(148)	2,053	1,609	(444)	522
Signalling	196	144	(52)	753	600	(153)	189
Civils	160	122	(38)	594	512	(82)	171
Buildings	65	52	(13)	199	204	5	67
Electrical power and fixed plant	101	94	(7)	369	386	17	90
Telecoms	25	18	(7)	91	76	(15)	24
Other network operations	154	141	(13)	681	602	(79)	144
Asset management services	50	31	(19)	200	133	(67)	60
National Delivery Service	(8)	41	49	(30)	170	200	(9)
Property	6	5	(1)	36	21	(15)	8
Group	(20)	(17)	3	(80)	(68)	12	(19)
Total maintenance expenditure	1,256	1,010	(246)	4,866	4,245	(621)	1,247

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

In £m 2017-18 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 previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by extra electrification maintenance as more of the network is electrified. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. Given the 20,000 miles of track that requires inspection and remediation this is perhaps not surprising. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but 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 base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17 with some extra expenses resulting from legal changes affecting overtime.

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

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting legal changes to overtime and further deferrals of renewals programmes requiring extra asset maintenance instead.
- (4) Civils – costs were higher than the determination mainly as a result of extra civils inspection costs partly offset by savings in reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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 other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. The reductions in costs compared to the previous year are also due to a combination of reduced reactive maintenance and inspection costs, which, as noted in the previous year's Regulatory Financial Statements was impacted by contractor disputes.

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

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, bringing the control period to date position in line with the regulatory expectation. Variances in this category 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 – costs for the current year are higher than the regulator assumed, reversing the trend of earlier in the control period. There is also a noticeable increase in costs compared to the previous year. As Network Rail continues with its ambitious programme to electrify large parts of the railway network, there is a requirement for maintenance teams to ensure that these assets are functioning correctly. This increase is most evident in the Western route where electrification of the network is most evident. The increases in capability in this area is demonstrated in Statement 8b, which shows significant increases in headcount in this category over the control period to date. Savings in the control period to date have been generated through delays in installing some of the new electrification equipment as well as through a number of local efficiencies, including restricting overtime and undertaking more risk based maintenance. In addition, certain responsibilities have been moved to Other network operations which has increased costs in that category.
- (7) Telecoms – costs are higher than the regulatory assumption this year and in the control period to date. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. Delays in renewals delivery (refer to Statement 9a) have also contributed as additional maintenance costs are required to keep the assets running in the required manner.
- (8) Other network operations – costs for the current year are largely in line with the regulator's expectation. For the control period to date, the higher costs compared to the PR13 prediction is mainly caused by extra safety and performance improvement costs. 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 re-invest these funds in improving the safety and performance of the network. A total of £39m was spent in 2014/15 and £7m in 2015/16 on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are higher than the previous year as a result of activity transferring to this category from other headings within this statement (notably Asset management services, Track and Signalling).

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

In £m 2017-18 prices unless stated

- (9) Asset management services – costs are higher than the regulator’s assumption this year and the control period to date. This is due a multitude of factors including: transfer of responsibilities from Civils, transfer of activity from Electrical power and fixed plant, 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. Costs are lower than the previous year mostly due to a favourable settlement of a commercial dispute in the current year.
- (10) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.
- (11) Property – expenses in the current year are in line with the determination but are higher for the control period to date. This is mostly due to the inclusion of additional costs for remediation and decontamination of certain parts of Network Rail’s rental estate following tenants’ bankruptcy earlier in the control period which left Network Rail to bear the costs of site clearance.
- (12) 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. As noted in Statement 9a, the strategy for sourcing the company’s vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). This is expected to result in reduced income, albeit with a capital saving, in the final year of the control period.

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

	2014-15	2015-16	2016-17	2017-18
Track	7,341	7,394	7,712	7,647
Signalling	2,927	2,913	3,422	3,423
Civils	261	247	244	246
Buildings	155	169	208	204
Electrical power and fixed plant	1,381	1,375	1,592	1,819
Telecoms	432	468	461	462
Other network operations	1,492	1,614	1,883	1,804
Asset management services	-	-	-	-
National delivery service	669	973	1,007	1,009
Property	-	-	-	-
Group	-	-	-	-
Other maintenance	-	-	-	-
Total network maintenance headcount	14,658	15,153	16,529	16,614

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 directly 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 reported in this statement has increased compared to the previous year. This is mainly due to increases in the number of staff required to maintain electric assets on the network. Network Rail has been undertaking an ambitious electrification programme this control period which has necessitated an increase in the size of teams to keep the assets working as required. This has been partly offset by organisational efficiencies in other maintenance categories.

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Ashford	25	23	24	24	96
Bedford	19	19	19	18	75
Bletchley	30	30	31	32	123
Bristol	20	19	21	21	81
Brighton	26	27	25	25	103
Carlisle	25	25	26	28	104
Clapham	27	26	28	40	121
Cardiff	32	32	32	35	131
Croydon	25	26	27	25	103
Derby	23	23	26	26	98
Doncaster	19	18	20	20	77
Eastleigh	23	22	22	36	103
Hitchin	24	25	26	25	100
Ipswich	28	27	27	28	110
Leeds	18	19	20	19	76
Liverpool	23	25	26	26	100
London Bridge	24	25	25	26	100
London Euston	29	26	26	25	106
Manchester	31	30	31	33	125
Newcastle	22	26	27	25	100
Orpington	20	21	21	21	83
Plymouth	15	15	16	17	63
Preston	16	15	16	17	64
Reading	16	18	20	23	77
Romford	35	32	34	34	135
Saltley	25	27	29	30	111
Sandwell & Dudley	20	22	24	25	91
Sheffield	15	15	19	17	66
Shrewsbury	15	16	17	19	67
Stafford	21	22	23	25	91
Swindon	15	18	21	19	73
Tottenham	34	32	33	33	132
Warrington	21	20	20	21	82
Woking	30	26	25	0	81
York	20	22	25	24	91
Centrally managed					
Structures examinations	63	77	94	96	330
Major items of maintenance plant	6	5	4	9	24
HQ managed activities	65	33	26	27	151
Other	213	274	271	262	1020
Total network maintenance	1,158	1,203	1,247	1,256	4,864

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

In £m 2017-18 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) Overall, costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by extra electrification maintenance as more of the network is electrified. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK).
- (2) Total depots costs are in line with the previous year but there have been changes within the individual depots cost profiles as set out below:
 - a. Woking/ Clapham/ Eastleigh - there is a noticeable decrease in the costs for Woking depot this year following the closer of the depot. As part of the efficiency strategy in the Wessex route, the number of delivery units was rationalised. The savings made from the Woking depot closure is mostly offset by increased costs in Clapham and Eastleigh depots as maintenance responsibilities have transferred to these two locations. The impact of this reorganisation is also shown in Statement 8d, which shows the headcount movements between these depots as staff transfer.
 - b. Reading - this depot has higher costs than in 2016/17. This is due to new electrification teams recruited to manage the new electrified assets in the Western route.
 - c. Cardiff – costs in this depot have increased which includes additional electrification resource as parts of the route are electrified as part of the Great Western Electrification Programme.
- (3) Major items of maintenance plant – costs are noticeably higher this year compared to 2016/17 as some activity has been reclassified from Other. There is a corresponding decrease in the expenses in that category.

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

	2014-15			2015-16			2016-17			2017-18		
	Agency		Total	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total
Ashford	320	1	321	304	1	305	306	-	306	311	-	311
Bedford	300	-	300	301	-	301	284	-	284	293	-	293
Bletchley	364	1	365	390	1	391	365	-	365	365	-	365
Bristol	366	1	367	378	1	379	326	-	326	357	-	357
Brighton	358	1	359	329	-	329	324	-	324	330	-	330
Carlisle	373	-	373	378	-	378	374	-	374	375	-	375
Clapham	300	-	300	317	-	317	335	1	336	498	1	499
Cardiff	416	1	417	423	1	424	444	1	445	477	1	478
Croydon	295	-	295	275	2	277	287	-	287	287	-	287
Derby	460	1	461	495	-	495	400	-	400	528	-	528
Doncaster	292	-	292	291	-	291	294	-	294	303	-	303
Eastleigh	298	2	300	315	1	316	341	-	341	492	6	498
Hitchin	342	1	343	358	1	359	363	-	363	363	-	363
Ipswich	405	-	405	420	-	420	424	-	424	428	-	428
Leeds	309	2	311	309	1	310	305	-	305	305	-	305
Liverpool	346	-	346	353	-	353	348	1	349	338	2	340
London Bridge	294	1	295	285	-	285	290	1	291	302	-	302
London Euston	322	-	322	315	-	315	292	-	292	325	-	325
Manchester	447	3	450	447	1	448	455	-	455	460	-	460
Newcastle	383	-	383	382	-	382	380	-	380	376	-	376
Orpington	260	-	260	247	-	247	248	-	248	248	-	248
Plymouth	314	1	315	333	-	333	273	-	273	279	1	280
Preston	271	2	273	273	-	273	278	-	278	270	-	270
Reading	331	5	336	350	6	356	328	4	332	360	4	364
Romford	426	4	430	448	2	450	453	1	454	468	1	469
Saltley	328	-	328	348	-	348	348	-	348	356	-	356
Sandwell & Dudley	304	3	307	312	4	316	322	1	323	324	1	325
Sheffield	317	1	318	312	-	312	300	1	301	302	1	303
Shrewsbury	259	-	259	270	-	270	291	-	291	305	-	305
Stafford	325	2	327	322	1	323	326	1	327	322	1	323
Swindon	256	2	258	306	1	307	298	-	298	335	-	335
Tottenham	428	1	429	452	1	453	459	3	462	471	1	472
Warrington	343	-	343	341	-	341	343	-	343	339	1	340
Woking	380	2	382	390	6	396	359	-	359	-	-	-
York	372	2	374	381	2	383	385	1	386	361	1	362
Centrally managed												
Route HQ	1,906	140	2,046	1,857	139	1,996	3,410	149	3,559	3,223	108	3,331
Other HQ	561	107	668	863	110	973	929	77	1,006	942	66	1,008
Total network maintenance	14,371	287	14,658	14,870	282	15,152	16,287	242	16,529	16,418	196	16,614

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 reported in this statement has increased compared to the previous year. This is mainly due to increases in the number of staff required to maintain electric assets on the network. Network Rail has been undertaking an ambitious electrification programme this control period which has necessitated an increase in the size of teams to keep the assets working as required.
- (2) Total depots headcount has increased since the previous year. This is mostly due to increases in electrification resources as more of the network becomes electrified and so requires additional resource to operate optimally. This is also shown in Statement 8b which shows the increase in this category. The increase is compounded by a general trend of more responsibilities moving from central maintenance functions to the depots to allow more responsive teams and better management of local issues. This is also shown by the decrease in Route HQ staff. Notably movements in the depots include:
 - a. Woking/ Clapham/ Eastleigh - there is a noticeable decrease in the headcount for Woking depot this year following the closure of the depot. As part of the efficiency strategy in the Wessex route, the number of delivery units was rationalised. The reduction in headcount arising from the Woking depot closure is mostly offset by increased headcount in Clapham and Eastleigh depots as maintenance responsibilities have transferred to these two locations. The impact of this reorganisation is also shown in Statement 8c, which shows the maintenance cost movements between these depots as staff transfer.
 - b. Reading/ Swindon/ Bristol - these depots on the Western route all have higher headcount than in 2016/17. This is due to new electrification teams recruited to manage the new electrified assets in the route.
 - c. Cardiff – headcount in this depot has increased which includes additional electrification resource as parts of the route are electrified as part of the Great Western Electrification Programme.
 - d. Derby – parts of the organisational structure have been reclassified as Other HQ this year, including the operations around the Lincoln and Sleaford areas.
- (3) Route HQ – the decrease in headcount is largely due to a trend of responsibilities transferring from central areas to local depots. This is offset by increases in the headcount within depots.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	cumulative	Cumulative PR13	Difference	2016-17 Actual
Track	632	625	(7)	3,246	2,665	(581)	832
Signalling	586	581	(5)	2,420	2,739	319	517
Civils	325	362	37	1,878	1,624	(254)	495
Buildings	74	140	66	599	643	44	126
Electrical power and fixed plant	146	148	2	608	822	214	192
Telecoms	45	57	12	228	310	82	63
Wheeled plant and machinery	55	106	51	276	486	210	65
Information Technology	67	75	8	429	322	(107)	85
Property	15	26	11	66	101	35	20
Other renewals	116	252	136	635	172	(463)	114
Total renewals expenditure	2,061	2,372	311	10,385	9,884	(501)	2,509

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

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially 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). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is £0.5bn higher than the determination which included an assumption that activity planned at an individual asset level would be deferred and includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year with decreases across most asset categories as Network Rail seeks to invest its limited funds in the most optimal way, which has included deferring activities to the final year of the control period and with greater resources redirected to Schedule 8 and maintenance and operations activities to compensate for lower than expected improvements.

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

In £m 2017-18 prices unless stated

- (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 opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan across all categories. Whilst Plain Line is only expected to be marginally lower, High Output volumes are less than half the planned amount as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. In particular there were major efficiencies planned from High Output, which was a new delivery method being developed at the end of CP4, but these expected gains have proven to be over optimistic. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered. This was most evident in High Output where concerns over the productivity led to a planned reduction in the level of activity with total delivery around one-third of that delivered in 2016/17. Whilst Plain Line refurbishment decreased. Less drainage and fencing works were also completed.

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

In £m 2017-18 prices unless stated

- (3) Signalling –expenditure was slightly higher than the determination expected, mitigating some of the underspend that had occurred earlier in the control period. The higher costs were due to underlying costs being more expensive than the regulator assumed partly alleviated by deferral of programmes. Expenditure on ERTMS programmes was lower than anticipated as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. In addition, some ERTMS outputs are being delivered under the Operating strategy other capital expenditure category which helps explain the overspend in this area. 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 and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on Weaver to Wavertree, Birmingham New Street phase 6, Polmadie & Rutherglen and Huddersfield Bradford contributed nearly £100m of extra investment this year compared to 2016/17. Conversely, as the Cardiff are resignalling and East Kent Phase 2 schemes are substantially complete, expenditure this year across these two schemes were over £50m lower than the previous year.

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

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- (4) Civils – expenditure in the year was lower than the regulator anticipated as higher underlying costs were mitigated by deferral of activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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 for the control period to date is higher than the determination expected with higher costs across almost all categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed over £120m of extra costs this control period – including damage to Dover seawall, Settle-Carlisle line and Harbury landslip), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. In addition, as noted in the prior year's regulatory financial statements the level of activity in 2016/17 included some significant remediation costs following damage to the network from externalities, most notably weather damage to Dover sea wall and the Settle-Carlisle line.

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- (5) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. 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 scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. 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 (June 2017) 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 in the control period to date is approximately 25 per cent lower than the determination anticipated. This is partly due to delays across the portfolio and some of this shortfall is expected to be caught up in the final year of the control period. The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development alongside concentration of technical resources on the Great Western Electrification programme have contributed to the slower rate of spend. This SCADA underspend in the control period to date is anticipated to be partly reduced in the final year of the control period where additional investment is expected in this programme. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was lower than the previous year with notable contributions from Overhead line (following completion of a major project to improve resilience on the East Coast Main Line in 2016/17) and DC distribution (as Wessex LV cables and Sussex Switchgear replacement campaigns both draw to a close).
- (6) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. A large portion of the underspend in the control period to date is expected to be caught up in the remaining year of the control period as further programmes are designed and delivered. 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 (June 2017) 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 for the control period to date is around a quarter less than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6. Expenditure is lower than the previous year, which included investment in licences and resilience projects as services are migrated from life-expired system.

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- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. There is additional investment in the Invention category this year which includes acquisition of Rail grinder plant. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (8) Information technology – investment in the year is lower than the determination assumed, but higher in the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (9) Property – costs are lower than the regulator's assumption in the current year and the control period to date. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. Given the bespoke nature of these schemes annual expenditure can be uneven which can help explain why costs are lower in the current year compared to 2016/17 which included significant investment in new offices in Birmingham to replace leased premises and so yield operational cost savings. The lower levels of investment reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity.

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

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(10) Other renewals includes the following notable items:

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure was lower than the previous year as programme milestones are delivered. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- 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 higher than planned this year as Network Rail catches up some of the slower delivery in early years of the control period. This year's expenditure on the fund is higher than the previous year, as activity ramps up. Notable projects delivered on the year include work on the Brighton Main Line to improve ability to fix electrical faults and delivery of projects in the Wessex route.
- d. Small plant – expenditure continues to be lower than the regulator's determination which is consistent with the 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 purchased 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 optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway. Given the cash constraints faced by the organisation, funding has been redeployed to front line activities which have a more direct link to short term performance and safety. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

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

In £m 2017-18 prices unless stated

- e. Research and development – research and development activity in the control period to date has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has to be funded through renewals. As a result values are included for the first time this year. As there was no renewals funding in the determination this is included as underperformance 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).
- f. 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 with variances in the control period to date being reversed in the final year of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- g. CP4 rollover - following the end of the previous control period (CP4), 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. Almost all of the expenditure in the current year is on 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 more of the schemes that were rolled over from CP4 are completed.
- h. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail was to invest in this type of network improvement.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	220	221	1	1,100	876	(224)
High output renewal	105	105	-	700	464	(236)
Plain line refurbishment	42	25	(17)	206	95	(111)
S&C renewal	132	122	(10)	649	619	(30)
S&C refurbishment	38	44	6	163	166	3
Track non-volume	29	50	21	123	200	77
Off track	66	58	(8)	305	245	(60)
Total track	632	625	(7)	3,246	2,665	(581)
Signalling						
Full conventional resignalling	266	117	(149)	1,077	716	(361)
Modular resignalling	30	16	(14)	66	126	60
ERTMS resignalling	11	93	82	47	175	128
Partial conventional resignalling	80	112	32	358	623	265
Targeted component renewal	7	17	10	20	90	70
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	20	11	(9)	76	45	(31)
Operating strategy other capital expenditure	29	15	(14)	178	153	(25)
Level crossings	53	100	47	185	380	195
Minor works	77	66	(11)	361	290	(71)
Centrally managed costs	13	34	21	52	141	89
Other	-	-	-	-	-	-
Total signalling	586	581	(5)	2,420	2,739	319
Civils						
Underbridges	110	158	48	693	727	34
Overbridges	46	28	(18)	222	122	(100)
Bridgeguard 3	2	-	(2)	21	-	(21)
Major structures	12	9	(3)	71	39	(32)
Tunnels	21	27	6	89	114	25
Other assets	38	33	(5)	210	150	(60)
Structures other	8	27	19	43	116	73
Earthworks	88	80	(8)	528	356	(172)
Other	-	-	-	1	-	(1)
Total civils	325	362	37	1,878	1,624	(254)
Buildings						
Managed stations	11	25	14	73	145	72
Franchised stations	39	87	48	380	386	6
Light maint depots	9	8	(1)	54	31	(23)
Depot plant	1	10	9	9	35	26
Lineside buildings	2	2	-	42	16	(26)
MDU buildings	10	6	(4)	36	24	(12)
NDS depots	-	2	2	3	6	3
Other	2	-	(2)	2	-	(2)
Capitalised overheads	-	-	-	-	-	-
Total buildings	74	140	66	599	643	44

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	3	4	1	8	35	27
Overhead Line	42	31	(11)	172	165	(7)
DC distribution	14	35	21	120	175	55
Conductor rail	5	11	6	39	51	12
SCADA	14	5	(9)	24	49	25
Energy efficiency	-	2	2	4	8	4
System capability / capacity	7	3	(4)	17	30	13
Other electrical power	9	14	5	36	60	24
Fixed plant	52	43	(9)	188	249	61
Total electrical power and plant	146	148	2	608	822	214
Telecoms						
Operational communications	7	14	7	23	38	15
Network	4	15	11	22	59	37
SISS	10	16	6	29	102	73
Projects and other	4	6	2	11	52	41
Non-route capital expenditure	20	6	(14)	143	59	(84)
Total telecoms	45	57	12	228	310	82
Wheeled plant and machinery						
High output	4	11	7	90	114	24
Incident response	-	1	1	-	7	7
Infrastructure monitoring	3	8	5	12	19	7
Intervention	31	23	(8)	63	117	54
Materials delivery	3	1	(2)	42	10	(32)
On track plant	10	17	7	33	66	33
Seasonal	-	5	5	4	40	36
Locomotives	-	-	-	-	-	-
Fleet support plant	-	4	4	-	22	22
Road vehicles	-	36	36	16	91	75
S&C delivery	4	-	(4)	16	-	(16)
Total wheeled plant and machinery	55	106	51	276	486	210
Information Technology						
IM delivered renewals	64	66	2	396	287	(109)
Traffic management	3	9	6	33	35	2
Total information technology	67	75	8	429	322	(107)
Property						
MDUs/offices	10	19	9	42	74	32
Commercial estate	5	7	2	24	27	3
Corporate services	-	-	-	-	-	-
Total property	15	26	11	66	101	35
Other renewals						
Asset information strategy	22	26	4	140	168	28
Intelligent infrastructure	7	20	13	33	71	38
Faster isolations	49	34	(15)	78	142	64
LOWS	2	2	-	6	8	2
Small plant	4	10	6	13	41	28
Research and development	6	-	(6)	6	-	(6)
Phasing overlay	-	160	160	-	(258)	(258)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	14	-	(14)	332	-	(332)
Other	12	-	(12)	27	-	(27)
West Coast	-	-	-	-	-	-
Total other renewals	116	252	136	635	172	(463)
Total renewals	2,061	2,372	311	10,385	9,884	(501)

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

In £m 2017-18 prices unless stated

Comments:

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially 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). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is £0.5bn higher than the determination which included an assumption of activity planned at an individual asset level would be deferred and includes projects assumed to be finished in the previous control period (and so not included in the CP5 determination). Investment is lower than the previous year with decreases across most asset categories as Network Rail seeks to invest its limited funds in the most optimal way, which has included deferring activities to the final year of the control period and with greater resources redirected to Schedule 8 and maintenance and operations activities to compensate for lower than expected improvements.

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

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- (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 opening years of the control period, a trend which has continued into the current year. Track unit costs at the end of CP4 were much higher than the regulator assumed in its' PR13 (around 25 per cent for plain line track) as anticipated efficiencies in the final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan across all categories. Whilst Plain Line is only expected to be marginally lower, High Output volumes are less than half the planned amount as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. In particular there were major efficiencies planned from High Output, which was a new delivery method being developed at the end of CP4, but these expected gains have proven to be over optimistic. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered. This was most evident in High Output where concerns over the productivity led to a planned reduction in the level of activity with total delivery around one-third of that delivered in 2016/17. Similarly, S&C delivery was about less than 2016/17 whilst Plain Line refurbishment decreased. Less drainage and fencing works were also completed.

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

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- (3) Signalling – expenditure was slightly higher than the determination expected, mitigating some of the underspend that had occurred earlier in the control period. The higher costs were due to underlying costs being more expensive than the regulator assumed partly alleviated by deferral of programmes. Expenditure on ERTMS programmes was lower than anticipated as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. In addition, some ERTMS outputs are being delivered under the Operating strategy other capital expenditure category which helps explain the overspend in this area. 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 and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Cardiff and East Kent, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on Weaver to Wavertree, Birmingham New Street phase 6, Polmadie & Rutherglen and Huddersfield Bradford contributed nearly £100m of extra investment this year compared to 2016/17. Conversely, as the Cardiff are resignalling and East Kent Phase 2 schemes are substantially complete, expenditure this year across these two schemes were over £50m lower than the previous year.

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

In £m 2017-18 prices unless stated

- (4) Civils – expenditure in the year was lower than the regulator anticipated as higher underlying costs were mitigated by deferral of activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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 for the control period to date is higher than the determination expected with higher costs across almost all categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed over £120m of extra costs this control period – including damage to Dover seawall, Settle-Carlisle line and Harbury landslip), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. In addition, as noted in the prior year's regulatory financial statements the level of activity in 2016/17 included some significant remediation costs following damage to the network from externalities, most notably weather damage to Dover sea wall and the Settle-Carlisle line.

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

In £m 2017-18 prices unless stated

- (5) Buildings – expenditure in the year was about half the level the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The most noticeable category of underspend was in Franchised stations as work was completed in earlier years of the control period. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's ever increasing efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates more than 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. 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 (June 2017) 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 in the control period is lower than the regulatory expectation, mainly due to lower expenditure in the current year. However, the underlying position is one of increased like-for-like costs more than offset by deferral of activity. This deferral is most pronounced in Managed stations, including lower than planned renewals at Waterloo, Liverpool Lime Street, Birmingham New Street and lower train shed works in Sussex. Expenditure is lower than the previous year mainly due to lower investment at Franchised stations as more work was undertaken in earlier years of the control period compared to the regulator's assumption. In addition, a higher proportion of minor works undertaken this year were classified as renewals in line with Network Rail's cost and volume reporting policies. This meant higher Buildings renewals, but lower Buildings maintenance (as shown in Statement 8a).

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

In £m 2017-18 prices unless stated

- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. 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 scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. 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 (June 2017) 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 in the control period to date is approximately 25 per cent lower than the determination anticipated. This is partly due to delays across the portfolio and some of this shortfall is expected to be caught up in the final year of the control period. The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development alongside concentration of technical resources on the Great Western Electrification programme have contributed to the slower rate of spend. This SCADA underspend in the control period to date is anticipated to be partly reduced in the final year of the control period where additional investment is expected in this programme. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was lower than the previous year with notable contributions from Overhead line (following completion of a major project to improve resilience on the East Coast Main Line in 2016/17) and DC distribution (as Wessex LV cables and Sussex Switchgear replacement campaigns both draw to a close).
- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. A large portion of the underspend in the control period to date is expected to be caught up in the remaining year of the control period as further programmes are designed and delivered. 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 (June 2017) 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 for the control period to date is around a quarter less than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6. Expenditure is lower than the previous year, which included investment in licences and resilience projects as services are migrated from life-expired systems.

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

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. There is additional investment in the Invention category this year which includes acquisition of Rail grinder plant. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the year is lower than the determination assumed but higher for the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are lower than the regulator's assumption in the current year and the control period to date. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. Given the bespoke nature of these schemes annual expenditure can be uneven which can help explain why costs are lower in the current year compared to 2016/17 which included significant investment in new offices in Birmingham to replace leased premises and so yield operational cost savings. The lower levels of investment reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity.

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

In £m 2017-18 prices unless stated

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure was lower than the previous year as programme milestones are delivered. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- 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 higher than planned this year as Network Rail catches up some of the slower delivery in early years of the control period. This year's expenditure on the fund is higher than the previous year, as activity ramps up. Notable projects delivered on the year include work on the Brighton Main Line to improve ability to fix electrical faults and delivery of projects in the Wessex route.

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

In £m 2017-18 prices unless stated

- d. Small plant – expenditure continues to be lower than the regulator's determination which is consistent with the 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 purchased 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 optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway. Given the cash constraints faced by the organisation, funding has been redeployed to front line activities which have a more direct link to short term performance and safety. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.
- e. Research and development – research and development activity in the control period to date has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has to be funded through renewals. As a result values are included for the first time this year. As there was no renewals funding in the determination this is included as underperformance 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).
- f. 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 with variances in the control period to date being reversed in the final year of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- g. CP4 rollover - following the end of the previous control period (CP4), 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. Almost all of the expenditure in the current year is on 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 more of the schemes that were rolled over from CP4 are completed.
- h. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail was to invest in this type of network improvement.

Statement 10: Other information, England & Wales

In £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	205	200	(5)	836	834	(2)	184
Access charge supplement Income	(185)	(188)	(3)	(787)	(785)	2	(202)
Net (income)/cost	20	12	(8)	49	49	-	(18)
Schedule 8							
Performance element income	(12)	-	12	(60)	-	60	(19)
Performance element costs	210	4	(206)	678	16	(662)	213
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	198	4	(194)	618	16	(602)	194

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	(28)	(15)	(6)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	25	30	1
RSSB Costs	-	-	(2)
ORR licence fee and railway safety levy	(1)	(3)	(2)
Reporters fees	(2)	(7)	(2)
Other industry costs	2	7	3
Network Rail HS1	4	12	4
Difference in CP4 opex memo allowance	-	(8)	-
Total logged up items	-	16	(4)

D) Net income / (costs) from alliances:

	2017-18	Cumulative	2016-17
Payment from South West Trains	-	2	1
Total alliance income	-	2	1
Payment to South West Trains	-	(2)	-
Total alliance costs	-	(2)	-
Net alliance income / (cost)	-	-	1

Statement 10: Other information, England & Wales – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 (ie on an accounting basis) rather than the physical transfer of cash or cash equivalents.

Statement 10: Other information, England & Wales – continued

In £m 2017-18 prices unless stated

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. The slightly lower figure this year is due to different inflation rates being used to calculate the contractual payment due by operators and the inflation rate ORR apply to their PR13 determination. The benefit in the control period to date is a result of a similar factor. Performance element costs are broadly in line with the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance. As the level of renewals activity decreased by more than the decrease in Schedule 4 costs financial underperformance has been recognised this year (refer to Statement 5a). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are lower than the regulatory assumption. This is a combination of undertaking less renewals activity partially offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Costs are broadly in line with the previous year lower than the previous year which is due to a combination of lower delivery of those assets that require possessions (notably Track - Plain line and Signalling - Full and partial conventional resignalling), offset by a higher average possession cost per renewals delivery. In addition, costs this year included the impact of Storm Emma in February which resulted in number of services being cancelled in light of the snow.

Statement 10: Other information, England & Wales – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average delay per incident has been high. Extra focus has been put on improving this metric as part of the company's strategy and improvements have been made this year but there is still potential for improvement. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of days punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included derailments at Waterloo and Paddington stations, lineside fires at Harrow and South Hampstead as well as storm damage in June 2017. Also, the issue of network trespass was a particular challenge this year with the London North West route south of Rugby particularly effected. Whilst some positive steps are being taken (such as investment in higher fencing and other technology to minimise access, increased security patrols at known hotspots and working with the Samaritans) such disruption affects performance significantly. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. When adjusting for the change in the benchmarks, costs this year are consistent with the costs in the previous year. Whilst 2016/17 was impacted by a smaller number of lower value one-off weather events, such as flash-floods in London (June 2016) and storm Doris (February 2017), the current year was dominated by the impact of a single weather event, storm Emma.
- (3) The opex memorandum is broadly neutral for this year which is primarily due to changes in the Business Rates that Network Rail has had to endure this year compared to the regulatory assumption offset by penalties under the Volume Incentive mechanism (refer to Statement 12). Well-publicised increases in Business Rates came into effect from April 2017 which has contributed to the value of the opex memorandum compared to the previous year and is expected to impact 2018/19 as well. The opex memorandum this year also includes penalties under the Volume Incentive mechanism as fewer passenger and freight growth has not matched the regulatory target. There is also income earned from Network Rail High Speed 1 compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be 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. The control period to date balance also includes an adjustment for differences 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, England & Wales

In £m 2017-18 prices unless stated

Service	Staff	Agency	Contractors & consultants	2017-18			Total cost
				Materials	Plant	Overheads	
Operations	-	-	-	-	-	-	-
Maintenance	25	1	-	-	-	5	31
Renewals	-	-	-	-	-	-	-
Total	25	1	-	-	-	6	31

Service	Staff	Agency	Contractors & consultants	Cumulative			Total cost
				Materials	Plant	Overheads	
Operations	-	-	-	-	-	-	-
Maintenance	92	2	-	-	-	26	120
Renewals	-	-	-	-	-	-	-
Total	92	2	-	-	-	26	120

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

In £m 2017-18 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. This reflects the agreement introduced at the start of HS1's new quinquennial control period which commenced 1 April 2015.

Statement 12: Volume incentives, England & Wales

In £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(43)	(8)	274	276	1.3%	1.56	pence per passenger train mile
Passenger farebox (millions)	(45)	(9)	9,235	9,282	3.4%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(31)	(6)	19	20	2.2%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	(24)	(5)	20,911	22,057	2.8%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	(143)	(28)					

The cumulative volume incentive is determined by the following calculation:

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

Where:

A_t = Actual in year quantity

B = 2017-18 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, England & Wales – continued

In £m 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result. As a result, the Volume incentive measure is now negative for the control period to date. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of the continued structural decline in the freight market. In addition, passenger growth has not been able to keep up with the ambitious increases assumed in the determination this year.
- (2) Passenger train miles in the current year has been lower than the ORR's expectation. In fact, passenger train miles were slightly lower than the previous year. Disruptive possessions required to deliver Network Rail's ambitious enhancements portfolio resulted in closures of parts of the line, including the widely-publicised reduction in services to Waterloo in Summer 2017, as well as the continuation of Northern Programmes, Crossrail and Great Western Electrification. The snow brought by Storm Emma in February also resulted in a number of cancellations arising from safety concerns. These factors were partly offset by notably traffic growth in Sussex. As noted in last year's Regulatory Financial Statements, passengers in this route suffered from the effects of industrial action last year. Despite the stalling of Passenger train miles in the past two years, marginal outperformance has been generated in the control period to date due to higher than anticipated growth in the early years of the control period. This has resulted in financial outperformance being recognised (refer to Statement 5a).

Statement 12: Volume incentives, England & Wales – continued

In £m 2017-18 prices unless stated

- (3) Passenger farebox in the year was lower than the target, reflecting growth in passenger numbers being lower than the regulatory assumption. For the first three years of the control period this had been favourable due to increased train usage amongst the public so the control period to date position is currently favourable. Passenger farebox information is supplied by ORR.
- (4) Whilst there has been some growth in freight train miles this control period it has not been at the rate that the regulator expected and this leaves Network Rail facing a penalty under this mechanism. The determination assumed that growth during the control period to date would have been significant. However, the deterioration in 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 in recent years 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 requires. 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 have decreased slightly compared to the previous year. As noted in the previous year's regulatory financial statements, traffic was already significantly below the regulatory target, so the decline in the current year compounds the underperformance reported last year. The slower rates of growth are similar to the reasons noted above. Again, The London North East route has the largest gap to target due to growth assumptions for biomass transport to the Drax power station made at the time of the determination which have proved to be overoptimistic.

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC £m	Total AFV unit	Unit Cost £k/unit	unit	£m	Total AFC £m	Total AFV unit	Unit Cost £k/unit
Track	Conventional plain line Renewal	km	371	212	493	905	545	461	295	529	958	552
	High Output Renewal	km	68	69	192	236	814	232	158	205	330	621
	Plain line Refurbishment	km	224	37	92	610	151	246	46	89	522	170
	S&C Renewal/Refurbishment	point ends	622	112	248	1,645	151	916	151	291	1,720	169
	Track Drainage	lm	135,923	28	76	319,632	0	123,841	30	72	272,608	0
	Fencing	km	244	11	80	1,704	47	471	23	80	1,751	46
	Slab Track	km	1	4	10	1	10,000	-	-	-	-	-
	Off track	km/No.	195	12	36	972	37	565	16	36	993	36
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	485	1,227	-	-	-	719	1,302	-	-
Signalling	Full Conventional Resignalling	SEU	160	17	70	160	438	585	77	395	1,022	386
	Modular Resignalling	SEU	95	19	33	95	347	38	-	33	57	579
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	47	8	17	47	362	361	74	296	663	446
	Targeted Component Renewal	SEU	2	1	1	2	500	27	5	7	41	171
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	12	18	40	15	2,667	19	8	25	26	962
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	63	161	-	-	-	164	756	-	-
Civils	Underbridges	m ²	52,111	63	197	96,633	2	90,648	171	399	143,930	3
	Overbridges (incl BG3)	m ²	12,529	23	59	16,625	4	15,262	37	72	16,122	4
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	11,899	11	23	36,656	1	16,331	12	30	39,082	1
	Culverts	m ²	2,166	5	10	4,148	2	3,448	8	19	4,145	5
	Footbridges	m ²	1,876	6	21	4,379	5	2,186	6	17	2,926	6
	Coastal & Estuarial Defences	m	5,611	3	8	6,855	1	2,563	4	14	2,563	5
	Retaining Walls	m ²	2,181	6	9	2,395	4	13,099	8	10	13,169	1
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	4,581	56	153	9,143	17	2,646	73	203	5,849	35
	EW Drainage	m	76,753	10	22	130,501	0	82,880	12	26	125,755	0
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	183	502	-	-	-	331	790	-	-
Buildings	Buildings (MS)	m ²	854	-	1	956	1	8,214	-	2	8,214	0
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	1,581	-	1	2,108	0
	Train sheds (MS)	m ²	2,826	1	1	10,413	0	11,321	1	4	14,929	0
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	73,725	5	8	195,951	0	11,169	2	6	16,624	0
	Buildings (FS)	m ²	9,578	3	5	11,242	0	13,473	5	12	16,577	1
	Platforms (FS)	m ²	7,847	3	7	12,413	1	31,630	9	21	39,611	1
	Canopies (FS)	m ²	2,000	2	8	12,079	1	30,700	7	26	74,388	0
	Train sheds (FS)	m ²	10,837	3	13	10,837	1	1,500	-	-	1,500	-
	Footbridges (FS)	m ²	1,567	3	17	5,332	3	1,763	10	22	3,852	6
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		47,538	3	10	88,274	0	94,615	5	13	163,466	0
	Light Maintenance Depots	m ²	80,105	7	10	87,208	0	78,621	5	21	106,612	0
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	9,475	1	6	26,402	0	13,967	3	12	27,926	0
	MDU Buildings	m ²	22,786	2	7	39,600	0	8,529	1	4	10,607	0
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	33	93	-	-	-	48	144	-	-

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	48	12	60	169	355	26	17	64	71	901
	Mid-life refurbishment	Wire runs	-	-	-	-	-	5	1	9	5	1,800
	Structure renewals	No.	232	7	36	874	41	285	10	41	817	50
	Other OLE	-	-	-	-	-	-	-	-	-	-	-
	OLE abandonments	-	-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	53	5	36	202	178	41	9	45	168	268
	HV Switchgear Renewal AC	No.	-	-	-	-	-	7	-	1	18	56
	HV Cables AC	-	-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	12	-	2	24	83
	Booster Transformers AC	-	-	-	-	-	-	-	-	-	-	-
	Other AC	-	-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	22	3	9	35	257	22	1	5	28	179
	HV cables DC	km	1	-	1	4	250	12	3	12	18	667
	LV cables DC	km	38	5	39	128	305	33	14	42	77	545
	Transformer Rectifiers DC	-	1	-	1	1	1,000	-	-	-	-	-
	LV switchgear renewal DC	No.	1	-	-	1	-	37	5	19	96	198
	Protection Relays DC	No.	22	-	2	64	31	61	2	5	197	25
	Other DC	-	-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	1	-	2	2	1,000
	Energy efficiency	-	-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity	-	-	-	-	-	-	-	-	-	-	-
	Other Electrical Power	-	-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	128	2	11	265	42	76	1	8	92	87
	Signalling Power Cables	km	159	8	67	351	191	45	5	6	45	133
	Signalling Supply Points	No.	8	1	4	28	143	11	2	21	43	488
	Other Fixed Plant	-	-	-	-	-	-	-	-	-	-	-
Total			-	43	266	-	-	-	70	282	-	-
Telecoms	Customer Information Systems	No.	509	1	6	983	6	23	-	1	23	43
	Public Address	No.	1,325	-	4	3,096	1	90	-	-	105	-
	CCTV	No.	497	-	2	539	4	339	2	2	365	5
	Other Surveillance	No.	31	2	4	164	24	27	-	-	560	-
	PABX Concentrator	No. lines	2,948	1	1	10,152	0	6,116	1	1	7,204	0
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	14	-	-	30	-
	DOO CCTV	No.	-	-	-	-	-	33	2	7	88	80
	DOO Mirrors	-	-	-	-	-	-	-	-	-	-	-
	PETS	No.	8	-	1	8	125	11	-	1	34	29
	HMI Small	-	-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	30	-	1	101	10	60	-	-	695	-
	Radio	-	-	-	-	-	-	-	-	-	-	-
	Power	-	49	-	-	49	-	-	-	-	-	-
	Other comms	-	-	-	-	-	-	-	-	-	-	-
	Network	No.	21	1	2	44	45	29	2	13	37	351
	Projects and Other	-	-	-	-	-	-	-	-	-	-	-
	Non Route capex	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	5	21	-	-	-	7	25	-	-

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

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track - The High Output Renewal volumes have massively decreased compared to the prior year and this heavily affects the unit cost for high output work due to the length of time spent preparing and transporting the high output machine. In 2016-17 the greater number of volumes delivered allows the fixed costs to be spread across the projects at a lower unit rate. Volumes delivered in the year are significantly lower than last year but the unit cost calculation takes into account volumes delivered in prior years and result in a less significant drop in volumes contributing to the unit cost. In Slab Track the volumes are so small (1 in the current year compared to 2 previously) the unit cost swings massively and therefore is not a useful means of comparison.

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

In £m 2017-18 prices unless stated

- (3) Signalling – In Full Conventional Re-signalling there was only one project at Birmingham New Street which delivered volumes in the current year. The lack of other projects means it is hard to draw any real conclusions from the unit costs of these projects as there are a variety of factors that can affect different projects. As there was only one project there the sample size was so small that no meaningful analysis can be derived by comparing the unit cost variance between the two years. Level Crossings are a bespoke job type with similarities between projects being random. The level of work required and cost can vary depending on the type of level crossing as well as the possession charges which depend on track usage in that area. Therefore the increase in unit cost from prior year holds little information relating to over/under performance. In Modular Re-signalling there was only one project in each of the last two years. North Wales Coast in the current year had a lower unit cost than East Nottingham in the prior year. In Partial Conventional there were only 47 volumes delivered in the year compared to 500 delivered in just one project in Bristol 2015-16. This one project massively skewed the unit cost so analysis between the years would be of little value.
- (4) Civils – In Coastal and Estuarial Defences there has been a large drop in the unit rate in the current financial year. This is due to the emergency repair works that took place at Dover in the prior year. The nature of emergency work is more expensive as they are reactive works with the priority being on repairing the wall whilst cost considerations are secondary. This project brought the average unit cost up despite other projects delivering at a lower, standard unit cost. In Earthworks there is a wide range of different sub-types of renewals in the category which have markedly different unit rates. A rock cutting renewal for example would have a much higher unit cost than a soil cutting refurbishment. Therefore it is difficult to do any analysis on the category as a whole.
- (5) Electrical Power and Fixed Plant – There has been a dramatic fall in the unit cost for HV Cables DC compared to the prior year. The reason is that in the prior year there was one dominant project 'Kent CP5 HV Feeder Renewals'. This project had a high unit rate and so caused a high unit rate overall in this category. In the current financial year there was only one project 'Liverpool Cable Renewal' and this was simpler and had much lower rate than the Kent project. There were only a couple of projects delivering Points Heaters in 2016-17 compared to many more in 2017-18. Therefore it is difficult to compare the unit cost between the two years. In the current year there were many more volumes which reduce the unit cost. The Signalling Supply Point unit costs are massively decreased compared to the prior year. Once again there were only a small number of jobs in this category which can lead to big swings in the variance. In the prior year there was an expensive job in London North East compared to the main one in London North West which was a much cheaper scheme. In Wiring there was a large decrease in the unit cost in the year but once again there was only a couple of projects in each year so it is not possible to do any robust analysis.
- (6) Telecoms – The number of Customer Information System volumes delivered in the year has increased from 23 in 2016/17 to 509 in 2017/18. Therefore it is difficult to compare unit costs due to the large variance in sample sizes. Due to the large increase in volumes between years there is a marked drop in the unit rate. In Network the unit cost in the prior year was heavily skewed by an expensive job in London North West (WC GSM-R and Tx Renewal). This was a complicated large job and had a relatively high unit rate. The unit cost in the current year is primarily influenced by a simpler and cheaper job in Wales (FTN Rectifier) therefore the unit cost has massively decreased from one year to the next.

Statement 1: Summary regulatory financial performance, Scotland

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	426	431	(5)	1,838	1,832	6	482
Fixed Income	157	158	(1)	448	448	-	97
Variable Income	80	86	(6)	331	334	(3)	90
Other Single Till Income	54	66	(12)	213	247	(34)	49
Opex memorandum account	4	-	4	4	-	4	2
Total Income	721	741	(20)	2,834	2,861	(27)	720
Operating expenditure							
Network operations	44	39	(5)	190	167	(23)	46
Support costs	41	45	4	178	194	16	37
Traction electricity, industry costs and rates	56	58	2	209	213	4	53
Network maintenance	124	114	(10)	481	471	(10)	123
Schedule 4	15	25	10	97	108	11	41
Schedule 8	21	1	(20)	25	2	(23)	-
Total operating expenditure	301	282	(19)	1,180	1,155	(25)	300
Capital expenditure							
Renewals	352	275	(77)	1,340	1,253	(87)	373
PR13 enhancement expenditure	353	320	(33)	1,276	1,389	113	317
Non PR13 enhancement expenditure	(1)	-	1	14	-	(14)	(2)
Total capital expenditure	704	595	(109)	2,630	2,642	12	688
Other expenditure							
Financing costs	215	229	14	647	770	123	168
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	215	229	14	647	770	123	168
Total expenditure	1,220	1,106	(114)	4,457	4,567	110	1,156

Statement 1: Summary regulatory financial performance, Scotland – continued

In £m 2017-18 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 in the other statements of this document.
- (2) This statement shows that Network Rail's net expenditure (Total income less Total expenditure) was around £130m higher than the regulatory comparative. This was mostly due to higher capital investment.
- (3) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target with the lower electricity being the overwhelming contributor. Income is lower than the previous year mainly due to lower Schedule 4 Access Charge Supplements. This type of income is contractually set through the determination so the decrease is in line with the regulator's plans. 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 assumption mainly due to lower freight income and lower property rental income. Turnover for the control period to date is lower than expected for the same reasons, as well as due to fewer property sales. Income is higher than the previous year with the largest contribution arising from additional property sales. These variances are 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 (June 2017). This year the income largely relates to higher business rates costs that are expected to be compensated in future. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are slightly lower than the previous year due to some operational efficiencies being achieved. Network Operations costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are higher than the previous year which, as noted in last year's Regulatory financial statements, benefited from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Scotland – continued

In £m 2017-18 prices unless stated

- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates and British Transport Police costs. The savings made in the control period to date are also due to these factors. Costs are higher than the previous year as a result of increased Business rates following a widely-publicised increase in business rates across the country. Traction electricity, industry costs are discussed 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. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are broadly in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination due to financial outperformance arising from achieving lower rates from securing earlier possessions. Costs in the control period to date are lower than the regulator's assumption mostly due to deferral of activity and the impact of weather events, such as damage to Lamington Viaduct. Schedule 4 costs are discussed 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. Increased network traffic, infrastructure failures and some one-off incidents, notably the snow that Storm Emma brought, contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year mainly due to ever-tightening benchmarks along with the disruptive impact of weather events this year and delays from assets failures. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is mostly due to higher underlying costs (notably in Track and Signalling) but also a catch up of activity deferred from previous years. Expenditure in the control period to date is c. £90m higher than the determination which included an assumption that c. £30m of activity planned at an individual asset level would be deferred and includes c. £10m of projects assumed to be finished in the previous control period (and so not included in the CP5 determination). The remaining difference is mainly due to additional track works partly offset by signalling deferrals. Investment is lower than the previous year largely due to lower track partly offset by extra signalling works delivered this year. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline including extra work delivered on the Rolling Programme of Electrification partly offset by reductions in Edinburgh to Glasgow Improvement Programme. Investment is higher than the previous year reflecting progress on Rolling Programme of Electrification and Aberdeen to Inverness. These variances are set out in more detail in Statement 3.
- (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 so the higher investment in the control period to date is axiomatic. There was limited investment in this category this year. These items are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Scotland – continued

In £m 2017-18 prices unless stated

- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the determination expected due to lower opening debt attributed to Scotland. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Scotland

In £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	5,642	6,071	(429)
Indexation to 2015-16 prices	457	492	(35)
Opening RAB for the year (2015-16 prices)	6,099	6,563	(464)
Indexation for the year	237	255	(18)
Opening RAB (2017-18 prices)	6,336	6,818	(482)
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	339	275	64
PR13 enhancements	334	175	159
Non-PR13 enhancements	-	-	-
Total enhancements	334	175	159
Amortisation	(298)	(298)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2018	6,711	6,970	(259)

RAB Regulatory financial position - cumulative, Scotland

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	5,420	5,704	5,992	6,336	5,420
Adjustments for the actual capital expenditure outturn in CP4	(56)	-	-	-	(56)
Renewals	277	309	358	339	1,283
PR13 enhancements	334	246	274	334	1,188
Non-PR13 enhancements	6	9	(1)	-	14
Total enhancements	340	255	273	334	1,202
Amortisation	(276)	(276)	(287)	(298)	(1,137)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	-	(1)
Closing RAB	5,704	5,992	6,336	6,711	6,711

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

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (3) The opening RAB for the year is noticeably lower than the regulator anticipated in its' determination. This is mostly due to lower enhancement investment undertaken by Network Rail in the opening two years of the control period (as outlined in the previous years' Regulatory financial statements) and also from lower investment towards the end of CP4, after the ORR had published PR13.
- (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) as well as re-profiling activity from earlier in 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 is mainly due to the extra expenditure included in the baseline following agreed changes to the Rolling Programme of Electrification baselines between Network Rail, Transport Scotland and ORR. There is also an element of re-profiling from earlier years in the control period as well as some efficient overspend on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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. There is minimal expenditure in the current year as Transport Scotland's current policy is to fund projects directly rather than through RAB additions.

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

In £m 2017-18 prices unless stated

- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 Network Rail undertook less capital expenditure compared to the assumption in the regulator's determination. This resulted in lower expenditure being logged up to the RAB in CP4.
 - b. IOPI (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	299	368	312	275	1,254
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)	306	368	312	275	1,261
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(71)	(101)	3	26	(143)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(5)	(7)	(7)	(20)
Adjustments for efficient overspend	47	55	57	50	209
Capitalised financing on efficient overspend	1	3	6	8	18
25% retention of efficient overspend	(11)	(13)	(14)	(12)	(50)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)	(2)	(4)
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	2	-	12
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	(1)	-	1	(1)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other adjustments	1	-	-	-	1
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	277	309	358	339	1,283
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	-	3	2	1	6
Adjustment for 25% retention of efficient overspend	12	14	13	11	50
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	-	-	-	1	1
Total actual renewals expenditure (see statement 9)	289	326	373	352	1,340

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

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	526	436	297	175	1,434
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	-	(51)	(141)	145	(47)
Capitalised financing on Baseline adjustments	-	(1)	(5)	(6)	(12)
Adjustments to DfT funding	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (enhancements)	528	384	151	314	1,377
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(190)	(167)	58	17	(282)
Capitalised financing on acceleration / (deferrals) of expenditure	(4)	(11)	(15)	(14)	(44)
Adjustments for efficient overspend	-	51	103	16	170
Capitalised financing on efficient overspend	-	1	4	7	12
25% retention of efficient overspend	-	(12)	(26)	(4)	(42)
Capitalised financing of 25% efficient overspend	-	-	(1)	(2)	(3)
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	-	-	-	-	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price 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	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	334	246	274	334	1,188
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	6	9	(2)	(1)	12
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	-	1	1	2
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Other adjustments	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6	9	(1)	-	14
Total enhancements (added to the RAB - see statement 2a)	340	255	273	334	1,202
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	4	11	16	14	45
Adjustment for 25% retention of efficient overspend	-	12	26	4	42
Other adjustments	2	-	-	-	2
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	6	19	21	18	64
Other adjustments	-	-	-	-	-
Total actual enhancement expenditure (see statement 3)	352	297	336	370	1,355

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

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening three years of the control period, 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 (June 2017), 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 June 2017) 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 with notable contributions from Track, and Signalling projects. 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.

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

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings.
- (9) Enhancements – CP4 deferrals to CP5 – there were some projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted.
- (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. The amount in the current year relates largely to agreed changes to the baseline for the Rolling Programme of Electrification.
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the ECAM process and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate.
- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), 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 June 2017) 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, with a notable contribution in the current year from Edinburgh Glasgow Improvements Programme (EGIP) partly offset by savings Rolling Programme of Electrification projects. Efficient overspend is classified as 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.

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

In £m 2017-18 prices unless stated

- (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, Scotland

In £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
Scottish stations fund	2	7	5	7	30	23
Scottish strategic rail freight investment fund	15	7	(8)	19	28	9
Scottish network improvement fund	10	14	4	37	56	19
Future network development fund	-	2	2	5	9	4
Level crossings fund	2	3	1	7	12	5
Total funds	29	33	4	75	135	60
Committed projects						
Edinburgh Glasgow Improvements Programme (EGIP)	1	-	(1)	10	17	7
Electrification of Springburn to Cumbernauld						
Edinburgh Glasgow Improvements Programme (EGIP)	106	2	(104)	510	202	(308)
Edinburgh to Glasgow Electrification						
Edinburgh Glasgow Improvements Programme (EGIP)	(5)	-	5	3	42	39
Edinburgh Gateway Station						
Edinburgh Glasgow Improvements Programme (EGIP)	3	67	64	51	291	240
Infrastructure Projects						
IEP Programme	-	-	-	-	-	-
Border Railway Project	-	1	1	195	193	(2)
Total committed projects	105	70	(35)	769	745	(24)
Named Schemes						
Scotland						
Aberdeen to Inverness journey time improvements and other enhancements	79	103	24	126	149	23
Rolling programme of electrification (Scotland)	132	70	(62)	264	171	(93)
Carstairs journey time improvements	-	1	1	1	2	1
Highland main line journey time improvements (phase 2)	5	31	26	10	122	112
Motherwell area stabling	-	2	2	-	11	11
Motherwell resignalling enhancements	2	-	(2)	2	3	1
Edinburgh South Suburban Electrification	-	-	-	-	-	-
Total Scotland:	218	207	(11)	403	458	55
Other projects						
Seven day railway projects	-	-	-	6	9	3
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	1	1	1	4	3
Income generating property schemes	1	5	4	22	21	(1)
Other income generating investment framework schemes	-	4	4	-	17	17
Total other projects	1	10	9	29	51	22
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	353	320	(33)	1,276	1,389	113
B) Investments not included in PR13						
Government sponsored schemes						
Borders New Railway	-	-	-	8	-	(8)
Other government sponsored schemes	(1)	-	1	3	-	(3)
Total Government sponsored schemes	(1)	-	1	11	-	(11)
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	14	-	(14)
Total Network Rail funded enhancements (see Statement 1)	352	320	(32)	1,290	1,389	99
Third Party PAYG	18	-	(18)	66	-	(66)
Total enhancements (see statement 2b)	370	320	(50)	1,356	1,389	33

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

In £m 2017-18 prices unless stated

Note:

- (1) The adjusted PR13 values in the table represent the regulator's latest expected cost by programme, incorporating 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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £352m (as shown in Statement 1). This comprises the total enhancement figure in the table above £370m less the PAYGO schemes funded by third parties (£18m).
- (5) Investment expenditure this year was higher than the previous year as delivery of the enhancement portfolio continues to make significant progress, with extra investment in the Rolling Programme of Electrification and Aberdeen to Inverness being offset by reduced works on the Edinburgh to Glasgow Improvement Programme.
- (6) 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. Overall, expenditure in this category this year was marginally lower than the baseline, continuing the trend of earlier years of the control period. Noteworthy variances between expenditure in the year and the baseline are set out below:
 - a. Scottish Stations Fund – this fund will be invested in improving the public's access to railway services. Delivery in the current year has been lower than planned as fewer suitable projects have been identified, a trend which has been repeated throughout the control period. There is a significant amount of work planned for the final year of the control period to utilise some of the underspend from earlier years of the control period.

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

In £m 2017-18 prices unless stated

- 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. Expenditure in the year is higher than the baseline as some of the underspends from earlier in the control period has been mitigated. Major projects delivered in 2017/18 included work on the Dunblane-Stirling line and Motherwell North. Expenditure is expected to be lower than the baseline for the control period, including deferral of the Edinburgh suburban electrification project into CP6 and changes in the remit of other projects from Transport Scotland.
 - 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 and control period to date is lower than the determination. Most of this is expected to be caught up in the final year of the control period when major projects include Polmadie & Rutherglen developments Motherwell North and depots improvements.
 - d. 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. Expenditure in the year and the control period to date is slightly lower than the baselines.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is in higher than the baseline, with the position being dominated by Edinburgh Glasgow Improvements Programme. The notable variances between expenditure and the baseline 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. This programme should be considered in totality across the various sub-projects. Expenditure in the year and the control period to date is higher than the regulatory assumption. This is partly due to increased expected programme costs which has resulted in recognition of financial underperformance (refer to Statement 5c) which has been somewhat offset by project deferrals. Spend in the current year is notably lower than 2016/17 when, as noted in last year's Regulatory Financial Statements, achieving regulatory targets necessitated extra investment in electrification parts of the programme.
 - b. 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. Costs in the year are minimal as the programme has largely completed.
- (8) PR13 funded schemes – named schemes - expenditure in the year is slightly higher than the baseline as deferrals of activity from earlier in the control period was caught up. The notable variances between expenditure and baselines are set out below:

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

In £m 2017-18 prices unless stated

- 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 lower than the baseline, which accounts for the variance in the control period to date. This is mainly due to changes in blockade strategy to reduce passenger disruption and to tie into other programmes in the route, such as Rolling Programme of Electrification. In addition, some financial underperformance has been recognised on the project (refer to Statement 5c) due to higher expected programme costs.
 - 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 higher than the regulator assumed for the year and control period to date mostly due to a re-phasing of activity within the control period. During the year, Transport Scotland and ORR reassessed the target programme costs in this area which has mitigated most of the financial underperformance reported in earlier years of the control period (refer to Statement 5a). Overall the expected programme costs are expected to be in line with the updated baseline.
 - 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. Expenditure in the current year and the control period to date is lower than the baseline as project delivery has been reprofiled into future years. Whilst activity on this programme is expected to ramp up later in the control period (notably 2018/19) total spend in CP5 is envisaged to be lower than the determination assumed.
 - d. 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. Furthermore, the scope of this project has been substantially reduced following agreement between Network Rail, Transport Scotland, train operators and ORR so expenditure is expected to remain minimal this control period.
- (9) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline this year and for the control period to date mainly due to fewer income generating schemes being identified and delivered. Notable variances to the baseline include:
- a. 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 6a). 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 current year is lower than the regulator's targets bringing the control period to date position in line with the regulatory expectation.
 - b. Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period to date which meets 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, Scotland – continued

In £m 2017-18 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 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements.
- a. Government sponsored – as with last year there has been minimal spend in the current year in this category. Transport Scotland's current strategy is to fund desired projects directly through PAYGO.
 - b. Discretionary investment – expenditure in previous years relates to the 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).
 - c. PAYGO – major projects this year include investment in train depots, Polamdie & Rutehrglen and Access for All schemes (Westerton and Kilmarnock). Although costs are broadly in line with the previous year, 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, Scotland

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	4,044	4,498	454	2,965	3,025	60
Income						
Grant income	(426)	(431)	(5)	(1,763)	(1,756)	7
Fixed charges	(157)	(158)	(1)	(432)	(431)	1
Variable charges	(80)	(86)	(6)	(317)	(322)	(5)
Other single till income	(54)	(66)	(12)	(205)	(237)	(32)
Total income	(717)	(741)	(24)	(2,717)	(2,746)	(29)
Expenditure						
Network operations	44	39	(5)	182	161	(21)
Support costs	41	45	4	170	186	16
Traction electricity, industry costs and rates	56	58	2	202	204	2
Network maintenance	124	114	(10)	462	452	(10)
Schedule 4	15	25	10	93	104	11
Schedule 8	21	1	(20)	25	1	(24)
Renewals	352	275	(77)	1,289	1,199	(90)
PR13 enhancement	353	175	(178)	1,227	1,362	135
Non-PR13 enhancement	(1)	-	1	13	-	(13)
Total expenditure	1,005	732	(273)	3,663	3,669	6
Financing						
Interest expenditure on nominal debt - FIM covered	33	82	49	146	264	118
Interest expenditure on index linked debt - FIM covered	22	29	7	88	106	18
Expenditure on the FIM	26	50	24	115	176	61
Interest expenditure on government borrowing	72	-	(72)	142	-	(142)
Interest on cash balances held by Network Rail	-	(3)	(3)	(2)	(8)	(6)
Total interest costs	153	158	5	489	538	49
Accretion on index linked debt - FIM covered	62	71	9	142	232	90
Total financing costs	215	229	14	631	770	139
Corporation tax	-	-	-	-	-	-
Other	135	-	(135)	140	-	(140)
Movement in net debt	638	220	(418)	1,717	1,693	(24)
Closing net debt	4,682	4,718	36	4,682	4,718	36

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

(£m, nominal prices)	March 2018 £m	March 2017 £m	March 2016 £m	March 2015 £m
Increase in net debt	638	438	270	371
Represented by:				
New debt issued				
Market issued debt	-	-	-	-
Borrowing from government	766	549	679	591
Accretion on index linked debt	62	40	20	20
Debt repaid	(291)	(215)	(279)	(218)
Decrease in net cash balances	(35)	73	(87)	23
Other	136	(9)	(63)	(45)
Increase in net debt	638	438	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

	March 2018		March 2017		March 2016		March 2015	
	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing	£m	% of total borrowing
(£m, nominal prices)								
Market issued debt								
Nominal borrowings (GBP)	407	8%	463	11%	511	13%	687	20%
Nominal borrowings (Foreign currency)	192	4%	256	6%	428	11%	544	16%
Total nominal borrowings	599	12%	719	17%	939	24%	1,231	36%
Index linked borrowings (GBP)	1,747	36%	1,632	39%	1,594	42%	1,594	47%
Borrowing from government	2,488	51%	1,810	44%	1,263	34%	591	17%
Total regulatory borrowings	4,834	100%	4,161	100%	3,796	100%	3,416	100%
Uncleared cash items	-		-		-			
Obligations under finance lease	-		-		-			
Net cash balances	(152)		(117)		(190)		(80)	
Regulatory net debt as at 31 March 2018	4,682		4,044		3,606		3,336	

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	1.23	1.09	1.01	0.77	1.02
FFO/interest	2.95	2.94	2.65	2.72	2.90
Net debt/RAB (gearing)	62.7%	63.9%	66.4%	69.8%	67.7%
FFO/debt	11.7%	10.4%	9.9%	8.9%	9.7%
RCF/debt	8.5%	7.5%	6.9%	5.6%	6.4%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. 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) Network Rail's debt attributable to Scotland has increased 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) Net debt attributable to Scotland at 31 March 2018 is in line with the regulatory assumption with lower interest costs and slower enhancement delivery being offset by higher renewals and lower property and freight income.
- (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 other 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 as a result of the ECAM (Enhancement Cost Adjustment Mechanism) process, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(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 made 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 year. This is largely due to lower opening debt as well as lower interest rates charged on the DfT loan facility compared to the regulatory expectation of the rates Network Rail would have to pay to borrow from the market. Actual market rates (as reflected in the DfT charges) have been much lower than the regulator assumed as macro-economic factors have caused the Bank of England to keep base rates at historically low levels. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are in line with the previous year as there have been no new issuances of this type of debt or repayments of exiting borrowings this year.
- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year.

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

In £m nominal unless otherwise stated

- 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are slightly lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above) which has more than offset the impact of higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of funding made available during the course of construction on enhancement projects.
- (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 over around half of Network Rail’s gross debt by value is payable to government. The proportion of gross debt issued by government has increased since last year as existing nominal debt is refinanced (including a £750m GBP bond and a \$1,250m USD bond) and further investment in capital works is undertaken by the company. Nominal borrowings have decreased in both absolute and proportionate terms as the aforementioned bonds that have matured in the current year have been replaced by drawdowns against the DfT loan facility. 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 most of the interest costs associated with such instrument are added to the principle each year. The proportion of this index-linked debt has decreased this year as the rate of overall gross debt has increased at a 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:

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging 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 Maintenance costs and lower turnover partly offset by savings in Support costs as described elsewhere in these accounts. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year as well as higher Schedule 8 costs owing to train performance this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(18) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

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

In £m nominal unless otherwise stated

- (19) 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 2017/18 is slightly higher than the regulatory comparative which is mainly due to efficient capital overspend and higher net operational costs partly offset by interest savings. 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 absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for the control period and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring.
- (20) 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 Maintenance, Network operations and Schedule 8 costs. The decline in the ratio this 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, which all get harder with each passing year.
- (21) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Scotland

In £m 2017-18 prices unless stated

2017-18								
	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	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	426	431	(5)	(5)	-	-	-	-
Fixed Income	157	158	(1)	(1)	-	-	-	-
Variable Income	60	58	2	-	-	-	2	2
Other Single Till Income	54	66	(12)	-	-	-	(12)	(12)
Opex memorandum account	4	-	4	4	-	-	-	-
Total Income	701	713	(12)	(2)	-	-	(10)	(10)
Expenditure								
Network operations	44	39	(5)	-	-	-	(5)	(5)
Support costs	41	45	4	1	-	-	3	3
Industry costs and rates	36	29	(7)	(4)	-	-	(3)	(3)
Traction electricity	-	1	1	-	-	-	1	1
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	124	114	(10)	-	-	-	(10)	(10)
Schedule 4 costs	15	25	10	-	-	-	10	10
Schedule 8 costs	21	1	(20)	-	-	-	(20)	(20)
Renewals	352	275	(77)	-	(26)	-	(51)	(13)
PR13 Enhancements	353	320	(33)	-	(17)	-	(16)	(4)
Non PR13 Enhancements	(1)	-	1	-	1	-	-	-
Financing Costs	215	229	14	14	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,200	1,078	(122)	11	(42)	-	(91)	(41)
Total:			(134)	9	(42)	-	(101)	(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)								(8)
Under-delivery of train performance requirements (CaSL)								(1)
Missed milestones for asset management - data quality								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(9)
Total financial out / (under) performance to be recognised								(60)

Statement 5a: Total financial performance, Scotland - continued

In £m 2017-18 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 $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	1,838	1,832	6	6	-	-	-	-
Fixed Income	448	448	-	-	-	-	-	-
Variable Income	251	239	12	-	-	-	12	12
Other Single Till Income	213	247	(34)	-	-	-	(34)	(34)
Opex memorandum account	4	-	4	1	-	-	3	3
Total Income	2,754	2,766	(12)	7	-	-	(19)	(19)
Expenditure								
Network operations	190	167	(23)	-	-	-	(23)	(23)
Support costs	178	194	16	4	-	-	12	12
Industry costs and rates	126	114	(12)	(3)	-	-	(9)	(9)
Traction electricity	3	3	-	-	-	-	-	-
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	481	471	(10)	-	5	-	(15)	(15)
Schedule 4 costs	97	108	11	-	16	-	(5)	(5)
Schedule 8 costs	25	2	(23)	-	-	-	(23)	(23)
Renewals	1,340	1,253	(87)	-	119	-	(206)	(52)
PR13 Enhancements	1,276	1,389	113	-	283	-	(170)	(43)
Non PR13 Enhancements	14	-	(14)	-	(14)	-	-	-
Financing Costs	647	770	123	123	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	4,377	4,472	95	124	410	-	(439)	(158)
Total:			83	131	410	-	(458)	(177)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(177)
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 milestones for asset management - data quality								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								(1)
Total adjustment for under-delivery outputs								(18)
Total financial out / (under) performance to be recognised								(195)
2017-18								
Cumulative								
Breakdown of variance not included in total financial performance -								
Variable income:	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance		
Adjustments for external traction electricity	(20)	(28)	8	(80)	(95)	15		
Total variance not included in total	(20)	(28)	8	(80)	(95)	15		
Breakdown of variance not included in total financial performance - Support costs:								
Spend to save adjustment	1	-	1	2	-	2		
Release of CP4 long distance financial penalty provision	-	-	-	2	-	2		
Total variance not included in total	1	-	1	4	-	4		
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction	20	28	(8)	80	95	(15)		
Total variance not included in total	20	28	(8)	80	95	(15)		

Statement 5a: Total financial performance, Scotland – continued

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 in the year and the control period to date is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such variances.
- (3) Variable income – across the control period to date, Network Rail has achieved marginal outperformance 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 which continued into the current 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. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Scotland – continued

In £m 2017-18 prices unless stated

- (4) Other single till income – this year, financial underperformance has been reported. This is mainly due to reduced freight income and lower property rental income. Substantial decreases in the freight traffic have occurred this control period (largely driven by demand for coal transportation reducing following legislative changes) whilst property sales and rental yield growth have been lower than the regulator expected. The control period to date variance is largely due to the same factors as well as lower property sales. Other single till income is set out in more detail in Statement 6a.
- (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 and in the control period to date. In the current year additional passenger journeys have been offset by slow freight growth owing structural changes in the industry meaning financial performance was neutral. For the control period to date, increases in passenger demand and consequent extra services provided have resulted in financial outperformance being recognised. These gains have been partially offset by lower freight demand. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations costs in Network operations costs in 2017/18 are approximately 15 per cent higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

Statement 5a: Total financial performance, Scotland – continued

In £m 2017-18 prices unless stated

- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business, continuing the trend of earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D.
- (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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at other major transport hubs in other routes (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. The variances for the control period to date arise from similar causes.
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance). The control period to date position reflects similar factors to those noted above.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. Savings in the control period to date are considered to be due to timing which is expected to reverse by the end of the control period and so have not been included as financial outperformance.

Statement 5a: Total financial performance, Scotland – continued

In £m 2017-18 prices unless stated

- (11) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refer to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are lower this year than the determination assumed. This is due to more efficient possessions taken in the current year, where the average cost of associated renewals was favourable to target. These reductions were generated through early planning and minimising programme changes to ensure that maximum discount factors were achieved. For the control period to date, the costs are lower than the regulator's expectation. This is due to higher underlying costs more than offset by reductions in the level of renewals works requiring possessions. The costs in the control period to date also include the impact of weather events on the network, including storm damage to a viaduct at Lamington which necessitated closing the line for a number of weeks to restore the asset.
- (13) Schedule 8 costs – costs are higher than the determination due to train performance falling short of the regulators targets for 2017/18. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident has been high. Extra focus has been put on improving this metric as part of the company's strategy and improvements have been made this year but there is still potential for improvement. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other weather events, such as storm Doris and snowfall also affected performance. The extra costs in the current year are driving the control period to date variance.

Statement 5a: Total financial performance, Scotland – continued

In £m 2017-18 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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (15) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with Transport Scotland to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from Edinburgh Glasgow Improvements Programme (EGIP) partly offset by outperformance on the Rolling Programme of Electrification following agreed changes to the programme baselines. The control period to date position is largely due to underperformance on these two programmes. Individual programme variances are set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (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. 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. There are no project variances which give rise to financial outperformance or underperformance for the current year of the control period to date.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower opening debt attributable to Scotland. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drive the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, Scotland – continued

In £m 2017-18 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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.
- (2) PPM – passenger train punctuality targets were missed in 2017/18, continuing the trend from earlier years 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, £0.25m (cash prices) for every 0.1 per cent that the PPM target of 92.0 per cent was missed.
- (3) Missed enhancement milestones – in line with the regulator's rules 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 there have been no missed outputs since which have impacted customer outputs.
- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.

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

In £m 2017-18 prices unless stated

2017-18

	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)	(11)	(28)	(7)		(7)	-	-
Signalling	(57)	(33)	(24)	(6)		(6)	-	-
Civils	(9)	(5)	(4)	(1)		-	(1)	-
Buildings	9	9	-	-		-	-	-
Electrical power and fixed plant	(4)	(4)	-	-		-	-	-
Telecoms	(2)	(6)	4	1		1	-	-
Wheeled plant and machinery	5	5	-	-		-	-	-
IT	1	1	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	19	18	1	-		-	-	-
Total	(77)	(26)	(51)	(13)		(12)	(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	(129)	(9)	(120)	(30)		(27)	(3)	-
Signalling	91	143	(52)	(13)		(14)	1	-
Civils	(61)	(37)	(24)	(6)		3	(9)	-
Buildings	17	21	(4)	(1)		(2)	1	-
Electrical power and fixed plant	8	12	(4)	(1)		-	(1)	-
Telecoms	3	3	-	-		1	(1)	-
Wheeled plant and machinery	25	25	-	-		-	-	-
IT	(10)	(10)	-	-		-	-	-
Property	(10)	(6)	(4)	(1)		-	(1)	-
Other renewals	(21)	(23)	2	-		1	(1)	-
Total	(87)	119	(206)	(52)		(38)	(14)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

- (1) Negative financial performance has been recognised in the current year, mainly in Track, Signalling and Civils reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets, continuing the trend from the previous years of the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has generally been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

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

In £m 2017-18 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Nearly half for this was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. 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.

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

In £m 2017-18 prices unless stated

- (4) Civils – as with previous years of the control period, 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. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, 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 weather damage (such as Lochailort and Ballieston) with the most significant being damage to Lamington viaduct which resulted in extensive remediation costs.
- (5) Buildings – financial performance for the current year is neutral as projects have been delivered in line with the determination cost assumptions. For the control period to date, however, there is financial underperformance. 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. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, emergency works at Wenyss Bay following weather related damage necessitated unplanned expenditure.
- (6) Telecoms – the financial underperformance reported this year offsets the underperformance reported in the earlier years of the control period. The efficiencies this year are mostly due to the efficiencies in the delivery of PABX concentrators at a lower unit rate than the determination assumed.
- (7) Other – this is made up of a number of different categories including the following:
- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
 - b. ORBIS – overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.

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

In £m 2017-18 prices unless stated

- c. Research & Development – earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constraints the activities required to build capacity for CP6 and beyond is now funded through renewals.

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

In £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Edinburgh Glasgow Improvements Programme (EGIP)	(36)	19	-	(55)	(14)
Rolling programme of electrification (Scotland)	(62)	(102)	-	40	10
Aberdeen to Inverness journey time improvements and other enhancements	24	25	-	(1)	-
Seven day railway	-	-	-	-	-
Other Enhancements	42	42	-	-	-
Total	(32)	(16)	-	(16)	(4)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Edinburgh Glasgow Improvements Programme (EGIP)	(22)	136	-	(158)	(40)
Rolling programme of electrification (Scotland)	(93)	(86)	-	(7)	(2)
Aberdeen to Inverness journey time improvements and other enhancements	23	28	-	(5)	(1)
Seven day railway	3	3	-	-	-
Other Enhancements	188	188	-	-	-
Total	99	269	-	(170)	(43)

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

In £m 2017-18 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 and so 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 their 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. Programme baselines are also subject to alteration following a Change Control process which involves Network Rail, ORR and Transport Scotland agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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) 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. In addition, planned access has been difficult to achieve and late running trains has reduced productivity of possessions as has poor weather which has impacted on-site delivery progress. Delays in obtaining compulsory purchase orders for required works at Glasgow Queen Street has also resulted in delays to the programme. Finally, issues at Edinburgh Waverly station, including discovery and subsequent remediation of asbestos and unforeseen ground conditions under the location of the new platform sites have caused delays and additional costs.
- (2) Rolling programme of electrification (Scotland) – outperformance has been recognised this year which has reduced the control period to date underperformance. This benefit is mostly due to an agreement of new baseline targets between Transport Scotland, ORR and Network Rail. This change in targets reflected the over-simplistic baseline set as part of the ECAM process.

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

In £m 2017-18 prices unless stated

- (3) Aberdeen to Inverness journey time improvements – expected total costs for the programme are higher than the baseline. There are a number of contributing factors including: extensive design solutions required in some locations to provide infrastructure that supports Transport Scotland's stated longer term strategy for the route, conflict between retaining freight capacity and increasing the frequency of commuter services has necessitated additional design solutions and scope, increased costs to comply with track and civils engineering rules, including design constraints with civil engineering works confined within the existing rail corridor, and increases in scope to improve asset quality.
- (4) 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: Total financial performance - REBS performance, Scotland

In £m 2017-18 prices unless stated

	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Cumulative to 2017-18 Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	77	83	(6)	-	-	-	(6)
Capacity charge	83	79	4	-	-	-	4
Electricity asset utilisation charge	5	5	-	-	-	-	-
Property income	62	74	(12)	-	-	-	(12)
Expenditure							
Network operations	190	166	(24)	-	-	-	(24)
Support costs	178	194	16	-	2	-	14
RSSB and BT Police	43	34	(9)	-	-	-	(9)
Network maintenance	481	472	(9)	(4)	-	-	(5)
Schedule 4 costs	97	109	12	17	-	-	(5)
Schedule 8 costs	25	-	(25)	-	-	-	(25)
Renewals	1,340	1,218	(122)	84	-	(154)	(52)
Total REBS performance			(175)	97	2	(154)	(120)
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 milestones for asset management - data quality							-
Missed ORBIS milestones							(4)
Total adjustment for under delivery of outputs and reduced sustainability							(17)
Cumulative performance to end of 2017-18							(137)
Less cumulative outperformance recognised up to the end of 2016-17							(88)
Net REBS performance for 2017-18							(49)

Where:

$$C = B - A$$

And:

$$F = (C - D - E) \times 75\%$$

only applies to renewals

And:

$$G = (C - D - E - F)$$

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

In £m 2017-18 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.
- (5) 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	426	431	(5)	1,838	1,832	6	482
Franchised track access income							
Fixed charges	157	158	(1)	448	448	-	97
Variable charges							
Variable usage charge	15	15	-	62	58	4	16
Traction electricity charges	20	28	(8)	80	95	(15)	21
Electrification asset usage charge	1	1	-	5	5	-	1
Capacity charge	21	19	2	83	76	7	21
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	23	23	-	101	100	1	31
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	80	86	(6)	331	334	(3)	90
Total franchised track access income	237	244	(7)	779	782	(3)	187
Total franchised track access and grant income	663	675	(12)	2,617	2,614	3	669
Other single till income							
Property income	18	22	(4)	66	83	(17)	15
Freight income	4	12	(8)	19	39	(20)	3
Open access income	-	-	-	-	-	-	-
Stations income	22	23	(1)	90	89	1	22
Facility and financing charges	1	2	(1)	4	5	(1)	1
Depots Income	9	7	2	34	30	4	8
Other income	-	-	-	-	1	(1)	-
Total other single till income	54	66	(12)	213	247	(34)	49
Total income	717	741	(24)	2,830	2,861	(31)	718

Statement 6a: Analysis of income, Scotland – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower government grants (arising from lower inflation) and lower freight income (as a result of structural declines in the coal transportation market). Income for the control period to date is lower than the regulatory target due to lower traction electricity income and freight revenue (for the reasons noted above) and lower property income. Income is in line with the previous year with lower grant income offset by higher fixed track access charges which are both in line with the determination.

Statement 6a: Analysis of income, Scotland – continued

In £m 2017-18 prices unless stated

- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport and Transport Scotland are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only 10.96 per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table. Grant income is lower than the previous year which is in line with the regulator's expectation in the PR13, with more income instead coming directly from operators through Fixed charges.

- (4) Fixed charges – fixed charge income for the year and the control period are consistent with the regulator's expectation. Fixed charges are higher than last year due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.
- (5) Variable usage charge – income from variable usage charges paid by train operators in the control period to date is favourable to the determination due to extra services offered to operators in response to increased passenger demand.
- (6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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). As market prices have been lower than the regulator assumed in each of the last four years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (7) Capacity charge – income in the current year this is greater than the determination expected reflecting the trend for the control period to date. This has been achieved through providing extra train paths to operators in the wake of increased passenger demand.

Statement 6a: Analysis of income, Scotland – continued

In £m 2017-18 prices unless stated

- (8) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. The noticeable reduction compared to the previous year is a function of the regulator's assumption for CP5, which assumed reductions in Network Rail's schedule 4 costs (which this income is designed to cover) over the control period due to year-on-year reductions in renewals investment and possession planning efficiencies.
- (9) Property income – this is lower than the regulator's expectation as property rental revenue has not grown at the rates assumed in the determination. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Property rental income is slightly higher than the previous year and property sales are higher. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway. Income in the control period to date is lower than the regulatory target, which is a combination of fewer property sales and lower property rental income.
- (10) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically since the determination was set. 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) but lower income. The structural changes facing the freight market over the past four years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the lower control period to date.
- (11) Depots income revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. Revenue is broadly in line with the previous year.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Property Income							
Property rental	16	22	(6)	62	81	(19)	15
Property sales	2	2	-	4	10	(6)	-
Adjustment for commercial opex	-	(2)	2	-	(8)	8	-
Total property income	18	22	(4)	66	83	(17)	15
Freight income							
Freight variable usage charge	3	7	(4)	15	25	(10)	2
Freight traction electricity charges	1	1	-	1	4	(3)	1
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	1	(1)	-	2	(2)	-
Freight only line charge	-	1	(1)	2	4	(2)	-
Freight specific charge	-	1	(1)	-	1	(1)	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	1	(1)	1	3	(2)	-
Total freight income	4	12	(8)	19	39	(20)	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	3	3	-	12	11	1	3
Qualifying expenditure	5	5	-	20	20	-	5
Total managed stations income	8	8	-	32	31	1	8
Franchised stations income							
Long term charge	12	13	(1)	51	49	2	12
Stations lease income	2	2	-	7	9	(2)	2
Total franchised stations income	14	15	(1)	58	58	-	14
Total stations income	22	23	(1)	90	89	1	22
Facility and financing charges							
Facility charges	1	2	(1)	4	5	(1)	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	1	2	(1)	4	5	(1)	1
Depots income	9	7	2	34	30	4	8
Other	-	-	-	-	1	(1)	-
Total other single till income	54	66	(12)	213	247	(34)	49

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

In £m 2017-18 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) Overall, single till income is lower than the regulator expected this year mainly as a result of lower freight income (as a result of structural declines in the coal transportation market) and lower property rental income.
- (2) 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 below the regulatory expectation for both current year and the control period to date with the gap to the determination widening each year. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income.
- (3) Property sales – income is consistent with the regulator's determination this year. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway. Income in the control period to date is lower than the regulatory target as fewer commercial opportunities which offer the taxpayer value for money have been identified.
- (4) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically since the determination was set. 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) but lower income. The structural changes facing the freight market over the past four years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the lower control period to date.

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

In £m 2017-18 prices unless stated

- (5) Depots income – revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. Revenue is broadly in line with the previous year.

Statement 6c: Analysis of income by operator, Scotland

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Cross Country					
Variable Usage Charges	0.8	0.8	0.8	0.9	3.3
Traction Electricity Charges	-	-	-	-	-
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	1.7	1.9	1.8	1.6	7.0
Fixed Charges	-	-	-	-	-
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	0.2	0.2	0.2	0.2	0.8
Station QX	0.3	0.3	0.3	0.3	1.2
Other Charges	-	-	-	-	-
Total income	3.0	3.2	3.1	3.0	12.3

	2014-15	2015-16	2016-17	2017-18	CP5 Total
East Coast Main Line Rail					
Variable Usage Charges	2.1	-	-	-	2.1
Traction Electricity Charges	-	-	-	-	-
Electrification Asset Usage Charges	0.1	-	-	-	0.1
Capacity Charges	3.5	-	-	-	3.5
Fixed Charges	-	-	-	-	-
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	0.3	-	-	-	0.3
Station QX	0.5	-	-	-	0.5
Other Charges	1.5	-	-	-	1.5
Total income	8.0	-	-	-	8.0

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Virgin East Coast					
Variable Usage Charges	0.2	2.3	2.4	2.3	7.2
Traction Electricity Charges	-	-	-	1.7	1.7
Electrification Asset Usage Charges	-	0.1	0.1	0.1	0.3
Capacity Charges	0.4	3.7	4.0	4.0	12.1
Fixed Charges	-	-	-	-	-
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	-	0.3	0.3	0.3	0.9
Station QX	-	0.6	0.6	0.6	1.8
Other Charges	0.1	1.7	1.6	1.5	4.9
Total income	0.7	8.7	9.0	10.5	28.9

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Scotrail					
Variable Usage Charges	8.4	8.2	8.9	8.2	33.7
Traction Electricity Charges	12.7	13.6	14.6	13.5	54.4
Electrification Asset Usage Charges	0.8	0.8	1.0	0.9	3.5
Capacity Charges	10.1	10.4	10.9	10.1	41.5
Fixed Charges	99.1	91.8	92.7	149.7	433.3
Station Facility Charge	0.6	0.8	-	0.8	2.2
Station Long Term Charges	17.1	15.2	1.7	16.1	50.1
Station QX	3.7	0.8	3.6	3.6	11.7
Other Charges	6.8	6.5	0.3	7.0	20.6
Total income	159.3	148.1	133.7	209.9	651.0

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Serco Sleeper					
Variable Usage Charges	-	0.7	0.6	0.6	1.9
Traction Electricity Charges	-	0.1	0.7	0.3	1.1
Electrification Asset Usage Charges	-	-	-	-	-
Capacity Charges	-	0.1	0.3	0.3	0.7
Fixed Charges	-	1.0	2.1	-	3.1
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	-	-	-	-	-
Station QX	-	-	0.1	0.1	0.2
Other Charges	-	-	-	-	-
Total income	-	1.9	3.8	1.3	7.0

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Transpennine					
Variable Usage Charges	0.4	0.4	0.4	0.5	1.7
Traction Electricity Charges	-	-	-	0.9	0.9
Electrification Asset Usage Charges	0.1	0.1	0.1	0.1	0.4
Capacity Charges	0.4	0.3	0.5	0.6	1.8
Fixed Charges	-	-	-	-	-
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	-	0.1	-	-	0.1
Station QX	0.1	0.1	0.1	0.1	0.4
Other Charges	-	-	-	-	-
Total income	1.0	1.0	1.1	2.2	5.3

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Virgin West Coast					
Variable Usage Charges	3.0	2.6	2.9	2.7	11.2
Traction Electricity Charges	-	-	-	3.3	3.3
Electrification Asset Usage Charges	0.3	0.2	0.3	0.3	1.1
Capacity Charges	4.6	4.1	4.5	4.2	17.4
Fixed Charges	-	-	-	-	-
Station Facility Charge	-	-	-	-	-
Station Long Term Charges	0.3	0.3	0.3	0.3	1.2
Station QX	0.4	0.4	0.4	0.4	1.6
Other Charges	-	-	-	-	-
Total income	8.6	7.6	8.4	11.2	35.8

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Consolidated Freight Operating Companies					
Variable Usage Charges	6.6	-	-	-	6.6
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	1.8	-	-	-	1.8
Total Turnover	8.7	-	-	-	8.7

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

In £m 2017-18 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. In addition, amounts in this statement for Other charges and Station long term charges for Train operating companies include facility charges which are included in Statement 6a and 6b within Facility charges.
- (2) The amounts reported in the tables do not include any payments made to/ received from operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) Fixed Charges – there has been an increase in Fixed charges across most operators compared to the previous year. This is part of the overall switch of higher Fixed charges offsetting reductions in Grant income received from governments as set out in Statement 6a. This is most apparent for Scotrail due to changes in the way the Scottish government have chosen to fund the railway in Scotland.
- (5) Changes in Freight income and Open access operator income are discussed in more detail in Statement 6a.
- (6) In 2014/15 Virgin East Coast replaced East Coast Main Line Rail as the main operator on the East Coast Main Line. Therefore, no income is reported for East Coast Main Line Rail after 2014/15, whilst the income for Virgin East Coast increases significantly after 2014/15.
- (7) In 2015/16 Serco Sleeper started to operate services as a new franchise and so were shown in Statement 6c in the Regulatory financial statements for the first time that 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	28	20	(8)	104	92	(12)	27
Signalling shift managers	1	1	-	8	4	(4)	2
Local operations managers	2	1	(1)	8	4	(4)	2
Controllers	3	3	-	11	10	(1)	3
Electrical control room operators	-	1	1	2	4	2	-
Total signaller expenditure	34	26	(8)	133	114	(19)	34
Non-signaller expenditure							
Mobile operations managers	2	2	-	11	8	(3)	2
Managed stations	5	4	(1)	24	17	(7)	7
Performance	1	1	-	12	4	(8)	3
Customer relationship executives	-	1	1	1	3	2	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	5	5	-
Other	1	3	2	3	11	8	1
Operations delivery	(1)	-	1	(4)	-	4	(1)
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	7	3	(4)	23	12	(11)	4
Other operating income	(5)	(2)	3	(13)	(7)	6	(4)
Total non-signaller expenditure	10	13	3	57	53	(4)	12
Total network operations expenditure	44	39	(5)	190	167	(23)	46
Support costs							
Core support costs							
Human resources	2	6	4	10	23	13	2
Information management	6	6	-	25	26	1	6
Government and corporate affairs	1	2	1	4	7	3	1
Group strategy	1	1	-	2	5	3	-
Finance	1	3	2	7	11	4	1
Business services	1	1	-	5	6	1	2
Accommodation	8	6	(2)	37	27	(10)	7
Utilities	5	4	(1)	20	19	(1)	6
Insurance	4	5	1	14	21	7	(1)
Legal and inquiry	-	1	1	4	2	(2)	1
Safety and sustainable development	2	1	(1)	8	3	(5)	2
Strategic sourcing	1	1	-	4	4	-	1
Business change	-	-	-	-	1	1	-
Other corporate functions	7	-	(7)	27	1	(26)	6
Core support costs	39	37	(2)	167	156	(11)	34
Other support costs							
Asset management services	3	6	3	16	25	9	3
Network Rail telecoms	4	3	(1)	17	16	(1)	3
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(3)	-	3	(10)	-	10	(3)
Commercial property	-	(1)	(1)	(1)	(2)	(1)	-
Group costs	(2)	-	2	(11)	(2)	9	-
Total other support costs	2	8	6	11	38	27	3
Total support costs	41	45	4	178	194	16	37
Traction electricity, industry costs and rates							
Traction electricity	20	29	9	83	98	15	21
Business rates	23	20	(3)	75	72	(3)	18
British transport police costs	10	7	(3)	39	30	(9)	10
RSSB costs	1	1	-	4	4	-	1
ORR licence fee and railway safety levy	2	1	(1)	7	7	-	2
Reporters fees	-	-	-	-	1	1	-
Other industry costs	-	-	-	1	1	-	1
Total traction electricity, industry costs and rates	56	58	2	209	213	4	53
Total network operations expenditure, support costs, traction electricity, industry costs and rates	141	142	1	577	574	(3)	136

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are in line with the determination assumption this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised, offset by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a) and lower costs in central functions.
- (3) 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.
- (4) Network operations costs in 2017/18 are approximately 15 per cent higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are slightly lower than the previous year as some operational efficiencies have been achieved.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.

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

In £m 2017-18 prices unless stated

- (6) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (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 Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are in line with the previous year as many of the transfers of responsibilities were in place for 2016/17.
- (8) Group strategy – expenditure this year is consistent with the determination assumption. This has largely been n. The savings in the control period to date have been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. Costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.
- (9) 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 this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16, part of the Group strategy team and Business Services in the previous year.
- (10) Business services – costs in this category are broadly in line with the determination assumption. The slightly higher value is due to responsibilities for professional training and development has been moved from Human resources in the current year as well as the cost of apprentice training. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. The extra costs in the current year also account for the vast majority of the variance to the regulators expectation in the control period to date.
- (11) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to unforeseen costs connected with the relocation of the route head office. Costs are comparable to the previous year.

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

In £m 2017-18 prices unless stated

- (12) Insurance - costs are favourable to the determination this year and the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (13) Safety and sustainable development - costs are higher than the determination in the year and the control period to date due to enhanced focus on safety. 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 this area. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.
- (14) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are broadly line with the previous year.
- (15) 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.
- (16) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.

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

In £m 2017-18 prices unless stated

- (17) 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 mainly due to lower performance related payments to staff, re-organisation costs in the current year than the regulator expected. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure) and lower re-organisation costs. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is higher than the previous year with the largest contribution from reductions in staff performance related pay.
- (18) 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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs partly offset by extra British Transport Police costs and higher Business rates. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media.
- (19) 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 lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are broadly in line with the previous year.
- (20) 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 through the Opex memorandum account mechanism (refer to Statement 10). Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency. As a result, Network Rail expects costs to exceed the regulatory assumption for the final year of the control period too.

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

In £m 2017-18 prices unless stated

- (21) British Transport Police costs - expenses in the year are higher than the determination assumed. 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. This year's costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs in other routes (including Manchester Victoria and London Bridge).

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

In £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	27	26	29	27	27
MOMS	3	3	3	2	2
Control	5	3	3	3	3
Planning & Performance Staff Costs	2	5	4	2	2
Managed Stations Staff Costs	1	2	2	2	2
Operations Management Staff Costs	3	2	2	2	3
Other	5	6	9	8	5
Total operations & customer services costs	46	47	52	46	44
Total Network Operations	46	47	52	46	44
Support					
Human resources					
Functional support	3	1	1	1	2
Training (inc Westwood)	2	1	1	-	-
Graduates	-	-	-	-	-
Apprenticeships	1	1	1	-	-
Other	-	-	-	1	-
Total human resources	6	3	3	2	2
Information management					
Support	1	-	-	-	-
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	5	6	6	5	5
Other	-	-	-	1	1
Total information management	6	6	6	6	6
Finance	2	2	2	1	1
Business Change	1	-	-	-	-
Contracts & Procurement	1	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	1	1	1
Planning & development	1	1	1	-	1
Safety & compliance	2	-	-	-	-
Other corporate services	5	2	2	2	2
Commercial property	6	11	11	7	8
Infrastructure Projects	(6)	(2)	(2)	(3)	(3)
Route Services	2	3	3	2	3
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	16	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	6	5	6	5
Network Rail Telecoms	-	5	6	3	4
Digital Railway	-	2	2	2	1
Safety Technical & Engineering	-	5	5	3	4
Government & Corporate Affairs	-	1	1	1	1
Business Services	-	1	1	2	1
Route Asset Management	-	1	1	2	2
Legal and inquiry	-	1	1	1	-
Group/central	-	-	-	-	-
Pensions	-	-	-	-	-
Insurance	4	5	6	(1)	4
Redundancy/reorganisation costs	8	2	1	1	1
Staff incentives/Bonus Reduction	1	(2)	(1)	-	(1)
Accommodation & Support Recharges	-	(3)	(2)	(3)	(3)
Commercial claims settlements	-	-	(1)	-	-
ORR financial penalty	8	(2)	-	-	-
Other	-	(1)	-	2	1
Total group/central costs	21	(1)	3	(1)	2
Total support	63	48	52	37	41
Total network operations and support costs	109	95	104	83	85

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.
- (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.
- (3) Network Operations – costs are marginally lower than the previous year as a result of some minor operational efficiencies being achieved.
- (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 core business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.
- (5) Commercial property – costs are lower this year than earlier in the control period which included some one-off transitional expenses incurred as part of the relocation of the route head office.
- (6) Group – Insurance – costs are higher than last year. As reported in last year's Regulatory financial statements there was a non-recurring benefit from the year end actuarial review of liabilities, when the level of provisions for outstanding claims was reduced. Costs this year are lower than earlier in the control period as in 2016/17 Network Rail altered its insurance strategy to fall more in line with the rest of government. As a result premiums are lower, but more risk is retained by the organisation. This change in strategy was necessitated by much higher market premiums than the regulator assumed in the determination. Severe weather events towards the end of control period 4 had a high profile impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. In addition, there have been overall increases in market premiums across the entire insurance industry (including increases in insurance premium tax imposed by the government). As a result the business case for procuring a lower level of insurance cover became more compelling. 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 or damage caused by Network Rail's road fleet) which are now more expensive.

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

In £m 2017-18 prices unless stated

- (7) 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. The credit balance in 2015/16 relates to lower expected pay-outs for long-term incentive plans to be made as a result of performance not meeting corporate targets. The credit in the current year mostly relates to Network Rail's Remuneration Committee reducing the performance related pay in relation to the 2016/17 targets. The planned costs of these schemes were 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 was recognised in Group.
- (8) 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, after the conclusion of the control period, 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).
- (9) Group - Other – following changes in legislation introduced by the government with effect from April 2017, companies are charged 0.5 per cent of their pay bill to fund the government's Apprentice Levy. The cost of this extra tax is included in Group for the first time this year. It is planned for these costs to be recognised in the costs of the each department from 2018/19. Whilst Network Rail are eligible to apply for funding through the Apprentice Levy it would require an unrealistic number of apprentices to be recruited each year to neutralise the financial impact of the levy.

Statement 7c: Insurance reconciliation, Scotland

In £m 2017-18 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	1	0	1	0	0
Business interruption	0	0	0	1	0	0	0	0
Terrorism	0	0	0	0	0	0	0	0
Employer's liability	0	0	0	0	0	0	0	0
Public & products liability	0	0	0	1	0	2	0	0
Motor	0	0	0	0	0	0	0	0
Construction all risks	0	0	0	0	0	0	0	0
Other cover	0	0	0	0	0	0	0	0
Investment return	0	0	0	0	0	0	0	0
Total	0	0	0	3	0	3	0	0

Total insurance recognised in:

Schedule 4 & 8	0	0	0	1	0	0	0	0
Operations	0	0	0	0	0	0	0	0
Support costs	0	0	1	2	0	2	0	1
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	1	3	0	2	0	1

B) Analysis of Network Rail Insurance Limited

Profit/(loss) derived from:	2017-18	2016-17	2015-16	2014-15	Cumulative
Operations	2	6	(5)	(3)	0
Investment revenues	0	0	0	0	0
Finance costs	0	0	0	0	0
Profit/(loss) before tax	2	6	(5)	(3)	0
Tax	0	0	0	0	0
Profit/(loss) attributable to shareholders	2	6	(5)	(3)	0

Statement 7c: Insurance reconciliation, Scotland – continued

In £m 2017-18 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 once again 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) 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) Although, this year Network Rail Insurance Limited has made a profit (unaudited) it is lower than the profits made in the previous year. This benefitted from some non-recurring gains following a full actuarial assessment of expected liabilities under different insurance policies. 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.

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

In £m 2017-18 prices unless stated

Actual spend in year

	2017-18				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	28	0	0	28	20	0	0	20	(8)	0	0	(8)
Signalling shift managers	1	0	0	1	1	0	0	1	0	0	0	0
Local operations managers	2	0	0	2	1	0	0	1	(1)	0	0	(1)
Controllers	3	0	0	3	3	0	0	3	0	0	0	0
Electrical control room operators	2	(2)	0	0	1	0	0	1	(1)	2	0	1
Total signaller expenditure	36	(2)	0	34	26	0	0	26	(10)	2	0	(8)
Non-signaller expenditure												
Mobile operations managers	2	0	0	2	2	0	0	2	0	0	0	0
Managed stations	5	0	0	5	4	0	0	4	(1)	0	0	(1)
Performance	1	0	0	1	1	0	0	1	0	0	0	0
Customer relationship executives	0	0	0	0	1	0	0	1	1	0	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	8	(9)	0	(1)	0	0	0	0	(8)	9	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 services	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Other	10	(3)	0	7	3	0	0	3	(7)	3	0	(4)
Other operating income	0	0	(5)	(5)	0	0	(2)	(2)	0	0	3	3
Total non-signaller expenditure	27	(12)	(5)	10	15	0	(2)	13	(12)	12	3	3
Total network operations expenditure	63	(14)	(5)	44	41	0	(2)	39	(22)	14	3	(5)

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

In £m 2017-18 prices unless stated

Actual spend in year

	2017-18				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	2	0	0	2	6	0	0	6	4	0	0	4
Information management	8	(2)	0	6	6	0	0	6	(2)	2	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	1	0	0	1	3	0	0	3	2	0	0	2
Business services	2	0	(1)	1	1	0	0	1	(1)	0	1	0
Accommodation	8	0	0	8	6	0	0	6	(2)	0	0	(2)
Utilities	6	0	(1)	5	4	0	0	4	(2)	0	1	(1)
Insurance	4	0	0	4	5	0	0	5	1	0	0	1
Legal and inquiry	0	0	0	0	1	0	0	1	1	0	0	1
Safety and sustainable development	2	0	0	2	1	0	0	1	(1)	0	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	15	0	(8)	7	0	0	0	0	(15)	0	8	(7)
Core support costs	52	(3)	(10)	39	38	0	(1)	37	(14)	3	9	(2)
Other support costs												
Asset management services	8	(4)	(1)	3	9	0	(3)	6	1	4	(2)	3
Network Rail telecoms	8	(3)	(1)	4	3	0	0	3	(5)	3	1	(1)
National delivery service	0	0	0	0	4	0	(4)	0	4	0	(4)	0
Infrastructure projects	51	(53)	(1)	(3)	0	0	0	0	(51)	53	1	3
Commercial property	1	0	(1)	0	3	0	(4)	(1)	2	0	(3)	(1)
Group costs	(2)	0	0	(2)	1	0	(1)	0	3	0	(1)	2
Total other support costs	66	(60)	(4)	2	20	0	(12)	8	(46)	60	(8)	6
Total support costs	118	(63)	(14)	41	58	0	(13)	45	(60)	63	1	4

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

In £m 2017-18 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	104	0	0	104	92	0	0	92	(12)	0	0	(12)
Signalling shift managers	8	0	0	8	4	0	0	4	(4)	0	0	(4)
Local operations managers	8	0	0	8	4	0	0	4	(4)	0	0	(4)
Controllers	15	(4)	0	11	10	0	0	10	(5)	4	0	(1)
Electrical control room operators	5	(3)	0	2	4	0	0	4	(1)	3	0	2
Total signaller expenditure	140	(7)	0	133	114	0	0	114	(26)	7	0	(19)
Non-signaller expenditure												
Mobile operations managers	11	0	0	11	8	0	0	8	(3)	0	0	(3)
Managed stations	25	(1)	0	24	17	0	0	17	(8)	1	0	(7)
Performance	12	0	0	12	4	0	0	4	(8)	0	0	(8)
Customer relationship executives	3	(2)	0	1	3	0	0	3	0	2	0	2
Route enhancement managers	0	0	0	0	0	0	0	0	0	0	0	0
Weather	0	0	0	0	5	0	0	5	5	0	0	5
Other	3	0	0	3	11	0	0	11	8	0	0	8
Operations delivery	30	(34)	0	(4)	0	0	0	0	(30)	34	0	4
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 services	0	0	0	0	0	0	0	0	0	0	0	0
HQ - Other	30	(7)	0	23	12	0	0	12	(18)	7	0	(11)
Other operating income	0	0	(13)	(13)	0	0	(7)	(7)	0	0	6	6
Total non-signaller expenditure	114	(44)	(13)	57	60	0	(7)	53	(54)	44	6	(4)
Total network operations expenditure	254	(51)	(13)	190	174	0	(7)	167	(80)	51	6	(23)

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

In £m 2017-18 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	13	(2)	(1)	10	24	0	(1)	23	11	2	0	13
Information management	34	(9)	0	25	28	0	(2)	26	(6)	9	(2)	1
Government and corporate affairs	4	0	0	4	7	0	0	7	3	0	0	3
Group strategy	6	(4)	0	2	5	0	0	5	(1)	4	0	3
Finance	7	0	0	7	11	0	0	11	4	0	0	4
Business services	7	0	(2)	5	6	0	0	6	(1)	0	2	1
Accommodation	37	0	0	37	27	0	0	27	(10)	0	0	(10)
Utilities	26	0	(6)	20	19	0	0	19	(7)	0	6	(1)
Insurance	14	0	0	14	21	0	0	21	7	0	0	7
Legal and inquiry	4	0	0	4	2	0	0	2	(2)	0	0	(2)
Safety and sustainable development	10	(2)	0	8	3	0	0	3	(7)	2	0	(5)
Strategic sourcing	4	0	0	4	9	0	(5)	4	5	0	(5)	0
Business change	0	0	0	0	1	0	0	1	1	0	0	1
Other corporate functions	42	0	(15)	27	1	0	0	1	(41)	0	15	(26)
Core support costs	208	(17)	(24)	167	164	0	(8)	156	(44)	17	16	(11)
Other support costs												
Asset management services	35	(16)	(3)	16	37	0	(12)	25	2	16	(9)	9
Network Rail telecoms	31	(10)	(4)	17	16	0	0	16	(15)	10	4	(1)
National delivery service	5	(1)	(4)	0	16	0	(15)	1	11	1	(11)	1
Infrastructure projects	143	(150)	(3)	(10)	0	0	0	0	(143)	150	3	10
Commercial property	5	(2)	(4)	(1)	12	0	(14)	(2)	7	2	(10)	(1)
Group costs	(3)	0	(8)	(11)	0	0	(2)	(2)	3	0	6	9
Total other support costs	216	(179)	(26)	11	81	0	(43)	38	(135)	179	(17)	27
Total support costs	424	(196)	(50)	178	245	0	(51)	194	(179)	196	(1)	16

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations and Support costs. Maintenance costs are addressed in Statement 8a, Traction electricity, industry costs and rates are discussed in Statement 7a.
- (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.
- (3) operations costs in 2017/18 are approximately 15 per cent higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are slightly lower than the previous year as some operational efficiencies have been achieved.
- (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 core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.

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

In £m 2017-18 prices unless stated

- (5) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (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 Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are in line with the previous year as many of the transfers of responsibilities were in place for 2016/17.
- (7) Group strategy – expenditure this year is consistent with the determination assumption. This has largely been met. The savings in the control period to date have been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. Costs are higher than the previous year as the organisation prepares for control period 6. This includes development of an enlarged System operator function to provide national coordination of the activities required to optimise the overall use of the national network for the benefit of all users.
- (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 this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16, part of the Group strategy team and Business Services in the previous year.
- (9) Business services – costs in this category are broadly in line with the determination assumption. The slightly higher value is due to responsibilities for professional training and development has been moved from Human resources in the current year as well as the cost of apprentice training. Every year Network Rail recruit around 150 front line engineering apprentices as the cornerstone of the development of the organisation and the costs of this activity are now classified within Business services. These apprentices are based at the Network Rail's Westwood training centre during the residential elements of their course. Consequently, the costs associated with the Westwood training centre have been moved from Accommodation to Business services this year so that the full cost of the apprentice programme can be held in a single place. The extra costs in the current year also account for the vast majority of the variance to the regulators expectation in the control period to date.

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

In £m 2017-18 prices unless stated

- (10) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to unforeseen costs connected with the relocation of the route head office. Costs are comparable to the previous year.
- (11) Insurance - costs are favourable to the determination this year and the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (12) Safety and sustainable development - costs are higher than the determination in the year and the control period to date due to enhanced focus on safety. 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 this area. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.
- (15) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are broadly line with the previous year.
- (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 in line with the previous year.

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

In £m 2017-18 prices unless stated

- (17) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (22) 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 mainly due to lower performance related payments to staff, re-organisation costs in the current year than the regulator expected. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure) and lower re-organisation costs. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is higher than the previous year with the largest contribution from reductions in staff performance related pay.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	46	45	(1)	187	185	(2)	47
Signalling	18	15	(3)	71	62	(9)	18
Civils	24	25	1	85	104	19	20
Buildings	5	5	-	22	17	(5)	10
Electrical power and fixed plant	6	4	(2)	24	18	(6)	5
Telecoms	3	3	-	11	11	-	3
Other network operations	21	11	(10)	74	47	(27)	18
Asset management services	4	4	-	17	15	(2)	5
National Delivery Service	(1)	4	5	(4)	19	23	(1)
Property	-	-	-	2	1	(1)	-
Group	(2)	(2)	-	(8)	(8)	-	(2)
Total maintenance expenditure	124	114	(10)	481	471	(10)	123

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

In £m 2017-18 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 previous years of the control period when efficiency targets set by the regulator were not fully realised. This was partly offset by lower reactive maintenance works this year. Overall, costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by higher asset inspection costs and some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are broadly in line with the determination. As noted elsewhere, the costs relating to National Delivery Services are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. Some of these additional costs have been re-categorised into Other network operations, thus increasing the costs in that category. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17 with some extra expenses resulting from legal changes affecting overtime largely offset by efficiencies.

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

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting legal changes to overtime and further deferrals of renewals programmes requiring extra asset maintenance instead.
- (4) Civils – costs were largely in line with the determination with extra civils inspection costs being offset by savings in reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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 other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are lower than the determination mainly due to less reactive maintenance partly offset by higher asset inspection costs. Costs are higher than the previous year which is due to extra reactive maintenance costs along with asset inspection costs.

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

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is in line with the regulatory assumption but has been higher in the control period to date. Variances in this category 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 – costs for the current year are higher than the regulator assumed, continuing the trend of earlier in the control period. As Network Rail continues with its ambitious programme to electrify large parts of the railway network, there is a requirement for maintenance teams to ensure that these assets are functioning correctly. Costs are largely in line with the previous year.
- (7) Other network operations – costs for the current year are higher than the regulator's expectation, continuing the trend of earlier years of the control period. As noted above this includes some elements of activity transferred from the Track category which help reduce costs in that area but increase them in this heading. Costs in the control period to date are higher than the PR13 target. 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 re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are higher than the previous year including switches in activity from Asset management services to Other network operations.
- (8) Asset management services – costs are broadly consistent with the determination in the current year and the control period to date. Costs are slightly favourable to the previous year mainly due to the aforementioned transfer of responsibility for certain activities transferring to Other network operations.
- (9) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.

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

In £m 2017-18 prices unless stated

- (10) 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 in line with the regulator's expectation for the current year and the control period to date. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). This is expected to result in reduced income, albeit with a capital saving, in the final year of the control period.

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

	2014-15	2015-16	2016-17	2017-18
Track	792	749	868	877
Signalling	341	349	352	359
Civils	-	-	-	-
Buildings	-	-	-	-
Electrical power and fixed plant	135	146	142	146
Telecoms	56	54	55	53
Other network operations	139	176	171	200
Asset management services	-	-	-	-
National delivery service	74	108	98	112
Property	-	-	-	-
Group	-	-	-	-
Other maintenance	-	-	-	-
Total network maintenance headcount	1,537	1,582	1,686	1,747

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 directly 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 reported in this statement has increased compared to the previous year partly as a result of Network Rail's commitment to reduce vacancies in its organisational structure. In addition, extra staff have been recruited to increase the ability to undertake more basic renewals work.

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

In £m 2017-18 prices unless stated

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Edinburgh	22	23	24	20	89
Glasgow	15	15	15	23	68
Motherwell	29	28	27	27	111
Perth	15	15	17	16	63
Centrally managed					
Structures examinations	12	14	14	15	55
Major items of maintenance plant	-	-	-	-	-
HQ managed activities	4	3	2	4	13
Other	16	23	24	19	82
Total network maintenance	113	121	123	124	481

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

In £m 2017-18 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) Overall, costs are broadly in line with the previous year. Costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by higher asset inspection costs and some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK.
- (2) Total depots costs are higher than the previous year. This is evident in the changes in Glasgow and Edinburgh. Costs in the Glasgow depot are perceptibly higher than the previous year. This is largely due to a reorganisation of responsibilities in the Scotland route, which has also resulted in reductions in the costs attributed to the Edinburgh depot and the Other category which have been largely offset by increases in HQ Managed Activities. The impact of this reorganisation is also shown in Statement 8d, which shows the headcount movements between these depots as staff transfer.
- (3) Costs included in Other have decreased compared to the prior year. This is mainly due to a reorganisation of responsibilities where additional accountability has been transferred to depots to facilitate quicker decisions, closer to the front line. The decreased costs are also due to lower reactive maintenance costs this year.

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

	2014-15			2015-16			2016-17			2017-18		
	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total	Permanent	Agency	Total
Edinburgh	327	-	327	348	-	348	353	-	353	288	1	289
Glasgow	250	-	250	253	-	253	256	-	256	379	-	379
Motherwell	402	-	402	413	-	413	409	-	409	418	-	418
Perth	216	-	216	221	-	221	230	-	230	237	1	238
Centrally managed												
Route HQ	266	2	268	236	3	239	335	5	340	306	4	310
Other HQ	62	12	74	96	12	108	90	8	98	105	8	113
Total network maintenance	1,523	14	1,537	1,567	15	1,582	1,673	13	1,686	1,733	14	1,747

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 reported in this statement has increased compared to the previous year partly as a result of Network Rail's commitment to reduce vacancies in its organisational structure. In addition, extra staff have been recruited to increase the ability to undertake more basic renewals work.
- (2) Total depots headcount has increased since the previous year. This is mostly due to transfers in responsibilities from Route HQ to depots to allow quicker, more responsive decisions, giving more accountability to the front line. This is also shown by the decrease in Route HQ staff. There are notable movements in the headcount of Glasgow and Edinburgh depots. Headcount in the Glasgow depot is perceptibly higher than the previous year. This is largely due to a reorganisation of responsibilities in the Scotland route, which has also resulted in reductions in the headcount in the Edinburgh depot. The impact of this reorganisation is also shown in Statement 8c, which shows the change in maintenance cost between these depots as staff transfer.
- (3) Route HQ – the decrease in headcount is largely due to a trend of responsibilities transferring from central areas to local depots. This is offset by increases in the headcount within depots.

Statement 9a: Summary analysis of renewals expenditure, Scotland

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	cumulative	Cumulative PR13	Difference	2016-17 Actual
Track	132	93	(39)	526	397	(129)	181
Signalling	94	37	(57)	210	301	91	55
Civils	78	69	(9)	358	297	(61)	86
Buildings	6	15	9	43	60	17	5
Electrical power and fixed plant	14	10	(4)	41	49	8	9
Telecoms	6	4	(2)	40	43	3	11
Wheeled plant and machinery	7	12	5	29	54	25	7
Information Technology	7	8	1	46	36	(10)	10
Property	1	1	-	14	4	(10)	2
Other renewals	7	26	19	33	12	(21)	7
Total renewals expenditure	352	275	(77)	1,340	1,253	(87)	373

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

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is mostly due to higher underlying costs (notably in Track and Signalling) but also a catch up of activity deferred from previous years. Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is c. £90m higher than the determination which included an assumption that c. £30m of activity planned at an individual asset level would be deferred and includes c. £10m of projects assumed to be finished in the previous control period (and so not included in the CP5 determination). The remaining difference is mainly due to additional track works partly offset by signalling deferrals. Investment is lower than the previous year largely due to lower track partly offset by extra signalling works delivered this year.

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

In £m 2017-18 prices unless stated

- (2) Track – costs are higher than the regulator assumed, which is mostly due to higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, resulting in a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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 in the control period to date is higher than the regulator assumed which is mostly a result of higher like-for-like costs than the regulator assumed. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan across most categories. Whilst Plain Line is expected to be ahead of target, High Output volumes are notable less than planned as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. In particular there were major efficiencies planned from High Output, which was a new delivery method being developed at the end of CP4, but these expected gains have proven to be over optimistic. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered. This was most evident in High Output where concerns over the productivity led to a planned reduction in the level of activity. Similarly, S&C and Plain Line refurbishment delivery was about 40 per cent and 20 per cent less respectively than 2016/17. Less non-volume work was completed too, especially slab track works as 2016/17 contained most of the costs of Glasgow Queen Street works.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was higher than the determination expected, mitigating some of the underspend that had occurred earlier in the control period. The higher costs are due to a combination of underlying costs being more expensive than the regulator assumed and a catch up of projects deferred from earlier in the control period. Minor works was higher than planned in the year and the control period to date as low level intervention were identified and delivered to maintain performance and offset the impact of programme deferral across the network. Level crossing programme expenditure was higher in the current year as work that was deferred from the first three years of the control period was caught up. Notable schemes included projects at Ardrossan Prince St and Dingwall. The determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. This year, the activity on Polmadie & Rutherglen project was substantially higher than the previous year, as was the investment in the SANOS south programme. This was partly offset by lower spend on Yoker re-control and Glasgow Queen Street as those projects were largely completed in 2016/17.
- (4) Civils – expenditure in the year was higher than the regulator anticipated as additional works were undertaken. Costs in the control period to date are higher than the ORR assumption due to a combination of works accelerated from future years as well as higher underlying costs. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. In addition, damage to Lamington viaduct earlier in the control period incurred considerable costs to remediate. Consequently, Civils financial underperformance has been recognised in the control period (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 (June 2017) 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). Spend is lower than the previous year, notably in Major Structures. In 2016/17 substantial investment was undertaken in renewing the Tay bridge.

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

In £m 2017-18 prices unless stated

- (5) Buildings – expenditure in the year was much lower than the regulator anticipated mostly due to a deferral of activity. The most noticeable category of underspend was in Franchised stations as the work has been reprofiled into next year. Investment in the control period to date is lower than the regulator assumed, resulting from deferral of activity partly offset by higher underlying costs. The former is expected to be largely mitigated in the final year of the control period. The higher like-for-like costs are mainly as a result of unrealistic efficiency targets and a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in this control period (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 (June 2017) 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 consistent with the previous year.
- (6) Electrical power and fixed plant – costs were higher than the regulator's assumption this year as some of the projects deferred from previous years was caught up. There was extra spend on fixed plant items to improve asset resilience, continuing the trend of earlier in the control period. Costs for the control period to date are lower than the regulator expected which is a combination of higher underlying costs partly offset by deferral of activity. 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. Consequently, Electrical power and fixed plant financial underperformance has been recognised this control period (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 (June 2017) 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 in the current year is higher than 2016/17 as deferrals in the earlier part of the control period are expected to be largely caught up in the final two years of the control period.
- (7) Telecoms – expenditure in the year was higher than the determination, reversing the trend of earlier years of the control period. This year included extra SISS (Station Information, Surveillance Systems) investment to catch up work that had been deferred in earlier years of the control period. 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 (June 2017) 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 for the control period to date is lower than the regulator assumed with deferrals across most categories. The majority of this is expected to be delivered in the final year of the control period. Expenditure is lower than the previous year, which included investment in licences and resilience projects as services are migrated from life-expired system.

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

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is in line with prior year.
- (9) Information technology – investment in the year is lower than the determination assumed but higher in the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs in the year are in line with the regulator's assumption but higher for the control period to date. These extra costs are mainly due to the expense of fitting out the new route HQ office in Glasgow. The route HQ has been forced 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 (June 2017) 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 2a).

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

In £m 2017-18 prices unless stated

(11) Other renewals includes the following notable items:

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure was lower than the previous year as programme milestones are delivered. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- 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. As fewer projects have been identified than the regulator expected, the underspend compared to the determination is expected to continue into the final year of this control period.
- d. Small plant – expenditure continues to be lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery. This fund is used to procure many small, bespoke pieces of equipment so items are only purchased 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 optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway. Given the cash constraints faced by the organisation, funding has been redeployed to front line activities which have a more direct link to short term performance and safety. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

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

In £m 2017-18 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 with variances in the control period to date being reversed in the final year of the control period. 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 the previous control period (CP4), 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 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 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams.

Statement 9b: Detailed analysis of renewals expenditure, Scotland

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	51	43	(8)	214	173	(41)
High output renewal	19	10	(9)	63	21	(42)
Plain line refurbishment	17	6	(11)	51	26	(25)
S&C renewal	21	13	(8)	72	57	(15)
S&C refurbishment	4	4	-	18	15	(3)
Track non-volume	8	6	(2)	56	59	3
Off track	12	11	(1)	52	46	(6)
Total track	132	93	(39)	526	397	(129)
Signalling						
Full conventional resignalling	38	2	(36)	69	128	59
Modular resignalling	-	1	1	2	17	15
ERTMS resignalling	(1)	1	2	2	1	(1)
Partial conventional resignalling	32	19	(13)	69	68	(1)
Targeted component renewal	2	2	-	6	12	6
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	5	3	(2)	11	16	5
Level crossings	5	1	(4)	11	15	4
Minor works	12	4	(8)	34	26	(8)
Centrally managed costs	1	4	3	6	18	12
Other	-	-	-	-	-	-
Total signalling	94	37	(57)	210	301	91
Civils						
Underbridges	36	30	(6)	150	120	(30)
Overbridges	4	3	(1)	15	14	(1)
Bridgeguard 3	4	-	(4)	13	-	(13)
Major structures	1	7	6	34	30	(4)
Tunnels	1	2	1	11	8	(3)
Other assets	8	6	(2)	37	30	(7)
Structures other	1	6	5	7	28	21
Earthworks	23	15	(8)	91	67	(24)
Other	-	-	-	-	-	-
Total civils	78	69	(9)	358	297	(61)
Buildings						
Managed stations	-	2	2	1	8	7
Franchised stations	4	11	7	34	42	8
Light maint depots	1	1	-	6	5	(1)
Depot plant	-	-	-	-	2	2
Lineside buildings	1	1	-	2	1	(1)
MDU buildings	-	-	-	-	1	1
NDS depots	-	-	-	-	1	1
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	6	15	9	43	60	17

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	6	6
Overhead Line	1	1	-	4	6	2
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	2	1	(1)	3	5	2
Energy efficiency	-	1	1	1	2	1
System capability / capacity	-	-	-	-	-	-
Other electrical power	2	1	(1)	2	6	4
Fixed plant	9	6	(3)	31	24	(7)
Total electrical power and plant	14	10	(4)	41	49	8
Telecoms						
Operational communications	1	1	-	4	6	2
Network	1	1	-	6	7	1
SISS	2	-	(2)	4	5	1
Projects and other	-	1	1	16	19	3
Non-route capital expenditure	2	1	(1)	10	6	(4)
Total telecoms	6	4	(2)	40	43	3
Wheeled plant and machinery						
High output	1	1	-	10	13	3
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	1	1	-	2	2
Intervention	4	2	(2)	8	13	5
Materials delivery	1	-	(1)	4	1	(3)
On track plant	1	2	1	4	7	3
Seasonal	-	1	1	-	5	5
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	2	2
Road vehicles	-	4	4	2	10	8
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	7	12	5	29	54	25
Information Technology						
IM delivered renewals	7	7	-	43	32	(11)
Traffic management	-	1	1	3	4	1
Total information technology	7	8	1	46	36	(10)
Property						
MDUs/offices	-	1	1	11	2	(9)
Commercial estate	1	-	(1)	3	2	(1)
Corporate services	-	-	-	-	-	-
Total property	1	1	-	14	4	(10)
Other renewals						
Asset information strategy	2	3	1	15	18	3
Intelligent infrastructure	1	2	1	4	10	6
Faster isolations	1	2	1	2	7	5
LOWS	1	-	(1)	1	1	-
Small plant	1	1	-	2	5	3
Research and development	1	-	(1)	1	-	(1)
Phasing overlay	-	18	18	-	(29)	(29)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	8	-	(8)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	7	26	19	33	12	(21)
Total renewals	352	275	(77)	1,340	1,253	(87)

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

In £m 2017-18 prices unless stated

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected which is mostly due to higher underlying costs (notably in Track and Signalling) but also a catch up of activity deferred from previous years. Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is c. £90m higher than the determination which included an assumption that c. £30m of activity planned at an individual asset level would be deferred and includes c. £10m of projects assumed to be finished in the previous control period (and so not included in the CP5 determination). The remaining difference is mainly due to additional track works partly offset by signalling deferrals. Investment is lower than the previous year largely due to lower track partly offset by extra signalling works delivered this year.

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

In £m 2017-18 prices unless stated

- (2) Track – costs are higher than the regulator assumed, which is mostly due to higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, resulting in a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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 in the control period to date is higher than the regulator assumed which is mostly a result of higher like-for-like costs than the regulator assumed. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan across most categories. Whilst Plain Line is expected to be ahead of target, High Output volumes are notable less than planned as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. In particular there were major efficiencies planned from High Output, which was a new delivery method being developed at the end of CP4, but these expected gains have proven to be over optimistic. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered. This was most evident in High Output where concerns over the productivity led to a planned reduction in the level of activity. Similarly, S&C and Plain Line refurbishment delivery was about 40 per cent and 20 per cent less respectively than 2016/17. Less non-volume work was completed too, especially slab track works as 2016/17 contained most of the costs of Glasgow Queen Street works.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was higher than the determination expected, mitigating some of the underspend that had occurred earlier in the control period. The higher costs are due to a combination of underlying costs being more expensive than the regulator assumed and a catch up of projects deferred from earlier in the control period. Minor works was higher than planned in the year and the control period to date as low level intervention were identified and delivered to maintain performance and offset the impact of programme deferral across the network. Level crossing programme expenditure was higher in the current year as work that was deferred from the first three years of the control period was caught up. Notable schemes included projects at Ardrossan Prince St and Dingwall. The determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. This year, the activity on Polmadie & Rutherglen project was substantially higher than the previous year, as was the investment in the SANOS south programme. This was partly offset by lower spend on Yoker re-control and Glasgow Queen Street as those projects were largely completed in 2016/17.
- (4) Civils – expenditure in the year was higher than the regulator anticipated as additional works were undertaken. Allowances in the Structures other category have been included in the appropriate key cost line to allow more accurate reporting. Costs in the control period to date are higher than the ORR assumption due to a combination of works accelerated from future years as well as higher underlying costs. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. In addition, damage to Lamington viaduct earlier in the control period incurred considerable costs to remediate. Consequently, Civils financial underperformance has been recognised in the control period (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 (June 2017) 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). Spend is lower than the previous year, notably in Major Structures. In 2016/17 substantial investment was undertaken in renewing the Tay bridge.

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

In £m 2017-18 prices unless stated

- (5) Buildings – expenditure in the year was much lower than the regulator anticipated mostly due to a deferral of activity. The most noticeable category of underspend was in Franchised stations as the work has been reprofiled into next year. Investment in the control period to date is lower than the regulator assumed, resulting from deferral of activity partly offset by higher underlying costs. The former is expected to be largely mitigated in the final year of the control period. The higher like-for-like costs are mainly as a result of unrealistic efficiency targets and a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised in this control period (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 (June 2017) 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 consistent with the previous year.
- (6) Electrical power and fixed plant – costs were higher than the regulator's assumption this year as some of the projects deferred from previous years was caught up. There was extra spend on fixed plant items to improve asset resilience, continuing the trend of earlier in the control period. Costs for the control period to date are lower than the regulator expected which is a combination of higher underlying costs partly offset by deferral of activity. 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. Consequently, Electrical power and fixed plant financial underperformance has been recognised this control period (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 (June 2017) 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 in the current year is higher than 2016/17 as deferrals in the earlier part of the control period are expected to be largely caught up in the final two years of the control period.
- (7) Telecoms – expenditure in the year was higher than the determination, reversing the trend of earlier years of the control period. This year included extra SISS (Station Information, Surveillance Systems) investment to catch up work that had been deferred in earlier years of the control period. 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 (June 2017) 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 for the control period to date is lower than the regulator assumed with deferrals across most categories. The majority of this is expected to be delivered in the final year of the control period. Expenditure is lower than the previous year, which included investment in licences and resilience projects as services are migrated from life-expired systems.

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

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is in line with prior year.
- (9) Information technology – investment in the year is lower than the determination assumed but higher in the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs in the year are in line with the regulator's assumption but higher for the control period to date. These extra costs are mainly due to the expense of fitting out the new route HQ office in Glasgow, The route HQ has been forced 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 (June 2017) 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 2a).

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

In £m 2017-18 prices unless stated

(11) Other renewals includes the following notable items:

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure was lower than the previous year as programme milestones are delivered. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Intelligent infrastructure – expenditure is much lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- 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. As fewer projects have been identified than the regulator expected, the underspend compared to the determination is expected to continue into the final year of this control period.
- d. Small plant – expenditure continues to be lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery. This fund is used to procure many small, bespoke pieces of equipment so items are only purchased 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 optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway. Given the cash constraints faced by the organisation, funding has been redeployed to front line activities which have a more direct link to short term performance and safety. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

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

In £m 2017-18 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 with variances in the control period to date being reversed in the final year of the control period. 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 the previous control period (CP4), 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 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 were in full flow earlier in the control period whereas much of the activity has now taken place, especially on the FTN and ORBIS workstreams.

Statement 10: Other information, Scotland

In £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	15	25	10	97	108	11	41
Access charge supplement Income	(23)	(23)	-	(101)	(101)	-	(31)
Net (income)/cost	(8)	2	10	(4)	7	11	10
Schedule 8							
Performance element income	-	-	-	(3)	-	3	(1)
Performance element costs	21	1	(20)	28	2	(26)	1
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	21	1	(20)	25	2	(23)	-

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	-	3	1
Proposed income/(expenditure) to be included in the CP6			
Business Rates	3	3	-
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	1	-	-
Reporters fees	-	(1)	-
Other industry costs	-	-	1
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	4	4	2

Statement 10: Other information, Scotland – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are lower than the determination assumed. This is due to more efficient possessions taken in the current year, where the average cost of associated renewals was favourable to target. These reductions were generated through early planning and minimising programme changes to ensure that maximum discount factors were achieved. For the control period to date, the costs are lower than the regulator's expectation. This is due to higher underlying costs more than offset by reductions in the level of renewals works requiring possessions. The costs in the control period to date also include the impact of weather events on the network, including storm damage to a viaduct at Lamington which necessitated closing the line for a number of weeks to restore the asset. Costs are lower than the previous year which, as noted in last year's Regulatory Financial Statements, included exceptionally high charges relating to the work at Glasgow Queen Street.

Statement 10: Other information, Scotland – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident has been high. Extra focus has been put on improving this metric as part of the company's strategy and improvements have been made this year but there is still potential for improvement. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other weather events, such as storm Doris and snowfall also affected performance. The extra costs in the current year are driving the control period to date variance. Costs are higher than the previous year. As noted in last year's Regulatory Financial Statements there were few one-off events in 2016/17 which effected performance and weather was benign. This year, external events such as the disruption brought by Storm Emma, impacted performance.
- (3) The opex memorandum currently shows a net income for this year which is primarily due to changes in the Business Rates that Network Rail has had to endure this year compared to the regulatory assumption. With relation to the former well-publicised increases in Business Rates came into effect from April 2017 which has contributed to the value of the opex memorandum compared to the previous year and is expected to impact the for 2018/19 as well. 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, differences in Business Rates experienced this year along with 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:

There is no Statement 11 required for Scotland

Statement 12: Volume incentives, Scotland

In £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	7	1	34	33	1.2%	1.56	pence per passenger train mile
Passenger farebox (millions)	(1)	0	493	487	3.0%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(3)	(1)	1	1	2.8%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	(3)	0	1,079	1,271	4.2%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	0	0					

The cumulative volume incentive is determined by the following calculation:

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

Where:

A_t = Actual in year quantity

B = 2017-18 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Scotland – continued

In £m 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has achieved the overall targets set by the regulator. This reflected outperformance on Passenger train miles offset by the continued structural decline in the freight market. For the control period to date, Network Rail has outperformed growth targets. As the below table illustrates, this is mainly due to better than expected passenger growth.

	Passenger train miles	Passenger farebox	Freight train miles	Freight gross tonne miles	Total
2014/15	1	-	-	-	1
2015/16	1	-	-	-	1
2016/17	1	-	-	-	1
2017/18	1	-	(1)	-	-
Total	4	-	(1)	-	3

- (2) Passenger train miles in the current year has been higher than the ORR's expectation as additional services were offered to passenger, continuing the trends of previous years. This has resulted in financial outperformance being recognised (refer to Statement 5a).

Statement 12: Volume incentives, Scotland – continued

In £m 2017-18 prices unless stated

- (3) Whilst there has been some growth in freight train miles this control period it has not been at the rate that the regulator expected and this leaves Network Rail facing a penalty under this mechanism. The determination assumed that growth during the control period to date would have been around 12 per cent. However, the deterioration in 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 in recent years 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 requires.

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

In £m 2017-18 prices unless stated

		FY18		Full Project			FY17		Full Project			
				A	B	$C = A \div B$			A	B	$C = A \div B$	
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost	Volume	Cost	Total AFC	Total AFV	Unit Cost
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Track	Conventional plain line Renewal	km	82	50	75	171	439	76	54	121	213	568
	High Output Renewal	km	34	19	62	78	795	44	43	43	43	1,000
	Plain line Refurbishment	km	105	15	26	226	115	126	13	28	245	114
	S&C Renewal/Refurbishment	point ends	89	15	21	150	140	107	12	21	199	106
	Track Drainage	lm	9,696	5	13	25,660	1	14,501	7	8	14,501	1
	Fencing	km	221	5	15	626	24	220	6	22	965	23
	Slab Track	km	-	-	-	-	-	2	20	27	2	13,500
	Off track	km/No.	9	1	3	21	143	13	2	3	16	188
	Other	-	-	-	-	-	-	-	-	-	-	-
Total		-	110	215	-	-	-	157	273	-	-	
Signalling	Full Conventional Resignalling	SEU	47	10	52	190	274	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	104	30	69	256	270	18	3	9	18	500
	Targeted Component Renewal	SEU	11	2	3	11	273	-	-	-	-	-
	ERTMS Train Fitment	-	-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	2	2	3	2	1,500	1	1	1	1	1,000
	Minor Works	-	-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total		-	44	127	-	-	-	4	10	-	-	
Civils	Underbridges	m ²	22,176	28	67	59,763	1	25,530	29	64	39,823	2
	Overbridges (incl BG3)	m ²	308	3	5	361	14	201	-	-	201	-
	Major Structures	-	-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	351	1	6	4,351	1	3,242	2	3	3,242	1
	Culverts	m ²	219	1	3	849	4	726	3	5	925	5
	Footbridges	m ²	152	1	-	152	-	562	1	3	983	3
	Coastal & Estuarial Defences	m	246	1	1	246	4	200	1	1	200	5
	Retaining Walls	m ²	204	1	1	204	5	1,622	1	1	1,622	1
	Structures Other	-	-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	711	19	41	1,180	35	769	15	37	1,069	35
	EW Drainage	m	40,332	3	5	50,566	0	42,876	3	3	42,876	0
	Other	-	-	-	-	-	-	-	-	-	-	-
	Total		-	58	129	-	-	-	55	117	-	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)	-	-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)	-	-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Buildings (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Platforms (FS)	m ²	42	-	-	42	-	1,195	1	1	1,195	1
	Canopies (FS)	m ²	-	-	-	-	-	4,900	1	4	6,250	1
	Train sheds (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m ²	301	1	1	366	3	291	1	2	594	3
	Lifts & Escalators (FS)	-	-	-	-	-	-	-	-	-	-	-
	Other (FS)	-	-	-	-	-	-	4	-	-	90	-
	Light Maintenance Depots	m ²	1,200	1	1	1,200	1	863	1	1	863	1
	Depot Plant	-	-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	-	-	-	-	-	-	-	-	-	-
	MDU Buildings	m ²	-	-	-	-	-	-	-	-	-	-
	NDS Depot	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total		-	2	2	-	-	-	4	8	-	-	

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	37	1	7	99	71
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
Telecoms	Signalling Power Cables	km	57	1	3	80	38	8	1	2	8	250
	Signalling Supply Points	No.	2	-	2	3	667	3	1	6	13	462
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
	Total		-	1	5	-	-	-	3	15	-	-
	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	1,321	-	1	2,123	0	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	17	1	1	17	59	3	-	1	63	16
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		5	-	-	5	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	7	-	1	20	50
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
	Total		-	1	2	-	-	-	-	2	-	-

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

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – In Conventional Plan Line Renewal there was a decrease in the unit cost in 2017-18 compared to the prior year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. There has been a large decrease in the High Output unit cost compared to 2016-17. This is due to the increased volume in the current year. High Output has a large element of fixed cost that is always spent regardless of volumes delivered. Therefore an increase in volume will naturally lead to a lower unit cost. There was an increase in the unit rate of S&C Renewal which was partly related to an expensive job at Mossend North in the current year. In Off Track there has been a reduction in the unit rate due to the fact that in the prior year that was significant expenditure for legacy projects that delivered the majority of the volumes in 2015-16.

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

In £m 2017-18 prices unless stated

- (3) Signalling – There has been strong decrease in the unit cost of Partial Conventional Re-signalling. However in the prior year there was only one project (Inverclyde). Therefore it is not worthwhile doing any variance analysis between the two years as the sample size is too small. The same issue exists for Level Crossings there was only one level crossing renewed in 2016-17 compared to two in the current year. Level crossings are bespoke jobs and a range of unit costs is to be expected due to the differing complexity of the work.
- (4) Civils – There was a big increase in the Retaining Walls category of unit costs. This due to the fact that in the current year all of the work was on replacing retaining walls rather than the less expensive repair and preventative work that took place in 2015-16.
- (5) Electrical Power and Fixed Plant – In Signalling Power Cables there has been a decrease in the unit cost in the current year. In the Signalling Supply Points category there has been an increase in the unit cost in the current year. However there were only two projects that delivered the volumes for both of these categories. The mix of volumes delivered has changed from one year to the next.

Statement 1: Summary regulatory financial performance, Anglia

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	407	413	(6)	1,637	1,632	5	411
Fixed Income	34	35	(1)	128	128	-	29
Variable Income	108	125	(17)	440	473	(33)	115
Other Single Till Income	83	96	(13)	329	359	(30)	90
Opex memorandum account	(1)	-	(1)	(3)	-	(3)	1
Total Income	631	669	(38)	2,531	2,592	(61)	646
Operating expenditure							
Network operations	56	42	(14)	210	177	(33)	52
Support costs	38	46	8	162	195	33	36
Traction electricity, industry costs and rates	71	88	17	290	318	28	69
Network maintenance	131	110	(21)	538	460	(78)	132
Schedule 4	34	19	(15)	107	84	(23)	28
Schedule 8	23	-	(23)	60	1	(59)	21
Total operating expenditure	353	305	(48)	1,367	1,235	(132)	338
Capital expenditure							
Renewals	206	214	8	952	934	(18)	224
PR13 enhancement expenditure	179	124	(55)	616	313	(303)	221
Non PR13 enhancement expenditure	56	-	(56)	70	-	(70)	(1)
Total capital expenditure	441	338	(103)	1,638	1,247	(391)	444
Other expenditure							
Financing costs	173	156	(17)	540	557	17	138
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	173	156	(17)	540	557	17	138
Total expenditure	967	799	(168)	3,545	3,039	(506)	920

Statement 1: Summary regulatory financial performance, Anglia – continued

In £m 2017-18 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 in the other statements of this document.
- (2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was in line with the determination in the year and the control period to date. Income is higher than the previous year due to changes in the way the railway is funded, with compensating reductions in the level of Grant income received this year.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target for the same reason. Income is lower than the previous year due to lower Schedule 4 Access Charge Supplements. This type of income is contractually set through the determination so the decrease is in line with the regulator's plans. 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 assumption mainly due to lower property income. The control period to date variance is also largely due to lower property income. The variance to 2016/17 is due to fewer property sales made this year. These variances are 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 (June 2017). This year, negative amount reported in the current year is largely due to costs recognised on the volume incentive due to lower growth in passenger demand compared to the regulator's target. The variance to the previous year can also be explained by these factors. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are higher than the previous year which includes the impact arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling and additional resilience response teams costs. Network Operations costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Anglia – continued

In £m 2017-18 prices unless stated

- (8) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income) partly offset by higher British Transport Police costs. The net savings made in the control period to date are also due to these factors. Costs are higher than the previous year as a result of increased Business rates following a widely-publicised increase in business rates across the country. Traction electricity, industry costs are discussed 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. Also, higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with additional reactive maintenance as well as extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are broadly in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.
- (10) Operating expenditure - Schedule 4 costs are higher similar to the determination mainly due to less efficient possessions and costs arising from disruption caused by Storm Emma partly offset by undertaking less renewals activity than the determination assumed. Costs for the control period to date are higher than the regulator expected, which is a combination of undertaking less renewals activity partially offset by the average cost of possessions exceeding the regulatory target. include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs are higher than the previous year due to a combination of higher delivery of those assets that require possessions, a higher average possession cost per renewals delivery and the impact of Storm Emma in February. Schedule 4 costs are discussed in more detail in Statement 10.
- (11) 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. Increased network traffic, infrastructure failures and some one-off incidents, notably the snow that Storm Emma brought, contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year mainly due to ever-tightening benchmarks. Schedule 8 costs are discussed in more detail in Statement 10.
- (12) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to net deferrals of activity partially offset by higher underlying costs (notably in Track, Signalling, Civils and Electrification & fixed plant). Expenditure in the control period to date is slightly higher than the determination reflecting increased underlying costs largely offset by project deferrals. Investment is lower than the previous year with reductions in Track and Electrification & fixed plant partly offset by increased signalling investment, notably in the Norwich to Yarmouth and Lowestoft re-signalling programme. Renewals costs are discussed in more detail in Statement 9a.
- (13) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline continuing the trend of the control period to date and is mainly driven by the Crossrail programme. These variances are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Anglia – continued

In £m 2017-18 prices unless stated

- (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 so the higher investment in the current year and the control period to date is axiomatic. Expenditure is higher than the previous year following additional projects requested by DfT to improve the railway network, notably contributions to the Gospel Oak to Barking electrification. These items are set out in more detail in Statement 3.
- (15) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are higher than the determination mainly due to higher opening debt in Anglia as well as higher market rates and inflation than the regulator predicted. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - Regulatory financial position, Anglia

In £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	4,296	4,007	289
Indexation to 2016-17 prices	348	325	23
Opening RAB for the year (2016-17 prices)	4,644	4,332	312
Indexation for the year	180	168	12
Opening RAB (2017-18 prices)	4,824	4,500	324
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	182	214	(32)
PR13 enhancements	183	153	30
Non-PR13 enhancements	57	-	57
Total enhancements	240	153	87
Amortisation	(227)	(227)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2018	5,019	4,640	379

RAB Regulatory financial position - cumulative, Anglia

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	4,213	4,485	4,626	4,824	4,213
Adjustments for the actual capital expenditure outturn in CP4	120	-	-	-	120
Renewals	257	224	193	182	856
PR13 enhancements	96	119	224	183	622
Non-PR13 enhancements	6	5	(1)	57	67
Total enhancements	102	124	223	240	689
Amortisation	(207)	(207)	(218)	(227)	(859)
Adjustments for under-delivery of regulatory outputs	-	-	-	-	-
Closing RAB	4,485	4,626	4,824	5,019	5,019

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

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13 and investment in enhancement schemes which have offset lower than expected renewals added to the RAB.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) as well as re-profiling activity to the final year of the control period and beyond, notably signalling. 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. Whilst there are variances in profiling across a number of programmes the largest contribution is from differences in which of Network Rail's routes different elements of the Crossrail programme would occur.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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. The amounts in the current year were higher than in earlier years of the control period and includes Network Rail contributions of Gospel Oak to Barking electrification, Crossrail and Cambridge North station development.

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

In £m 2017-18 prices unless stated

- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	208	243	268	214	933
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	35	-	-	-	35
Capitalised financing on CP4 deferrals	1	1	2	2	6
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (renewals)	244	244	270	216	974
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(50)	(89)	(154)	(96)	(389)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(5)	(9)	(15)	(30)
Adjustments for efficient overspend	77	89	107	88	361
Capitalised financing on efficient overspend	2	5	9	15	31
25% retention of efficient overspend	(19)	(22)	(27)	(22)	(90)
Capitalised financing on efficient overspend 25% retention	-	(1)	(3)	(4)	(8)
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	1	(1)	9
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	(1)	(1)	1	(2)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	257	224	193	182	856
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	(2)	(1)	1	2	-
Adjustment for 25% retention of efficient overspend	20	24	28	21	93
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	-	-	2	1	3
Total actual renewals expenditure (see statement 9)	275	247	224	206	952

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

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	61	68	71	153	353
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)	(10)	(29)	(40)
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)	62	66	61	123	312
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	34	43	149	18	244
Capitalised financing on acceleration / (deferrals) of expenditure	1	2	6	11	20
Adjustments for efficient overspend	-	-	-	-	-
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	-	12	11	37	60
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	(4)	(4)	(8)	(16)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	1	1	2
Adjustments for efficient overspend through spend to save framework	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	(1)	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	96	119	224	183	622
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	7	5	(1)	56	67
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	(1)	(2)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	2	2
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Other adjustments	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6	5	(1)	57	67
Total enhancements (added to the RAB - see statement 2a)	102	124	223	240	689
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	(1)	(2)	(7)	(13)	(23)
Adjustment for 25% retention of efficient overspend	1	4	4	8	17
Other adjustments	2	-	-	-	2
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	28	128	224	104	484
Other adjustments	2	-	-	-	2
Total actual enhancement expenditure (see statement 3)	134	254	444	339	1,171

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

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening three years of the control period, 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 (June 2017), 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 June 2017) 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 with notable contributions from Track, Signalling and Civils projects. 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.

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

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure. The reduction reported in the current year reflects decreased planned expenditure in this category across the whole control period compared to planned levels of investment included in Business Plans earlier in the control period.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. The increase reported in the current year reflects the reduced expenditure on such schemes compared to earlier plans as noted above.
- (9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.
- (10) 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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, 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 first year of the control period were reversed in the second year of the control period.

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

In £m 2017-18 prices unless stated

- (11) 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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail).
- (12) Enhancements – Adjustments to DfT funding – in the current year a capital grant was received from the DfT as a contribution to Network Rail's enhancement programme in England & Wales which has been apportioned across each of the operational routes in England & Wales. This has resulted in a reduction in the RAB with a corresponding increase in PAYGO enhancement expenditure.
- (13) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond.
- (14) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), 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 June 2017) 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, with minor contributions across a number of programmes. Efficient overspend is classified as 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 mainly on the Crossrail programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

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

In £m 2017-18 prices unless stated

- (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.
- (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.
- (19) Non-PR13 enhancements – Other adjustments (including discretionary investment) – this category covers expenditure where investment is not eligible for RAB addition. The current year includes part of the investment on the Gospel Oak to Barking electrification programme which is retained by Network Rail as well as a number of smaller discretionary schemes over and above the Hendy projects.

Statement 3: Analysis of enhancement capital expenditure, Anglia

In £m 2017-18 prices unless stated

	Actual	2017-18 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	2	2	7	11	4
Stations - Access for All (AfA)	3	7	4	16	15	(1)
Development	-	14	14	10	34	24
Level crossing safety	10	12	2	20	27	7
Passenger journey improvement	-	-	-	2	2	-
The strategic rail freight network	6	28	22	41	62	21
Total funds	19	63	44	96	151	55
Committed projects						
Crossrail	137	-	(137)	427	3	(424)
IEP Programme	-	-	-	-	-	-
Thameslink	1	(1)	(2)	3	7	4
Total committed projects	138	(1)	(139)	430	10	(420)
Named schemes						
Ports and Airports						
Service Improvements in the Ely Area	-	-	-	1	2	1
Total Named Schemes	0	0	0	1	2	1
HLOS capacity metric schemes						
West Anglia main line capacity increase	29	37	8	52	68	16
Bow Junction upgrade with Chelmsford & Wickford turnbacks	-	5	5	4	9	5
Anglia traction power supply upgrade	14	19	5	27	44	17
Total HLOS capacity metric schemes	43	61	18	83	121	38
CP4 project rollovers						
Station security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	-	-	-	-	-
Other projects						
Seven day railway projects	-	1	1	5	6	1
ERTMS Cab fitment	-	(1)	(1)	-	-	-
R&D allowance	-	-	-	1	2	1
Income generating property schemes	3	1	(2)	24	21	(3)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	(24)	-	24	(24)	-	24
Total other projects	(21)	1	22	6	29	23
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	179	124	(55)	616	313	(303)
B) Investments not included in PR13						
Government sponsored schemes						
Crossrail	8	-	(8)	8	-	(8)
G001 Gospel O2B OLE (Non Cash)	39	-	(39)	39	-	(39)
Cambridge North Stn (Non Cash)	6	-	(6)	6	-	(6)
Other government sponsored schemes	2	-	(2)	10	-	(10)
Total Government sponsored schemes	55	-	(55)	63	-	(63)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	5	-	(5)
Total Network Rail spend to save schemes	-	-	-	5	-	(5)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	1	-	(1)	2	-	(2)
Total non PR13 enhancement expenditure	56	-	(56)	70	-	(70)
Total Network Rail funded enhancements (see Statement 1)	235	124	(111)	686	313	(373)
Third Party PAYG	104	-	(104)	483	-	(483)
Total enhancements (see statement 2b)	339	124	(215)	1,169	313	(856)

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

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 Thameslink and Crossrail). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £235m (as shown in Statement 1). This comprises the total enhancement figure in the table above £339m less the PAYGO schemes funded by third parties (£104m).
- (5) Investment expenditure this year was lower than the previous year. Whilst Network Rail funded projects were largely consistent, there was less investment in PAYGO projects. 2016/17 included significant investment on Barking to Gospel Oak Electrification and the development of a new station at Cambridge North.

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

In £m 2017-18 prices unless stated

(6) 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 review) 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. Overall, expenditure in this category this year was lower than the baseline, mainly due to delays in Development and Strategic rail freight network projects. Noteworthy variances between expenditure in the year and the baseline are set out below:

- a. Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure is lower in the current year and the control period to date. The control period to date position reflects the position across the network as a whole but is expected to be largely recovered in the final year of the control period.
- b. 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. Whilst investment in the current year is lower than the baseline, the control period to date position is in line with the Hendy plan.
- c. Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure is lower than the Hendy baseline in the current year and the control period to date as insufficient projects with a suitable business case have been identified. This shortfall is expected to be partly mitigated in 2018/19 which has planned investment on Ely bypass.
- d. Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Whilst expenditure this year was in broadly consistent with the Hendy baseline it is still behind for the control period to date, reflecting the progress made across the network as a whole. Additional expenditure is expected in the final year of the control period to minimise the gap to the Hendy baseline.
- e. 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 in the year and the control period to date is in step with the baseline.
- f. 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 in the year was lower than the Hendy baseline as projects were reprofiled, mainly in 2018/19. This includes major investment in the Ipswich to Felixstowe capacity project, as well as works at Ely. The control period to date variance is largely a consequence of the underspend in the current year.

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

In £m 2017-18 prices unless stated

- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is dominated by 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 noticeably higher than the regulator's determination in the year and control period to date. This is mainly due to the determination assumptions over which of Network Rail's operational routes the work would occur in. The amounts included for the Anglia route were minimal even though a large part of the programme is being delivered in East London and beyond. In addition, some of the extra expenditure is due to negative financial performance (reported in Statement 5a) as the total programme is now expected to cost more than the baseline funding available. 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).
- (8) PR13 funded schemes – named schemes - the only programme in this category is Service improvements in the Ely area – this project will develop a scheme which improves capacity in the area by developing an operationally flexible junction that can deliver multiple train moves simultaneously. This is an enabling project to allow for a future uplift in trains across the junction, once other (currently unfunded) works are completed. In line with the Hendy baseline, activity in the control period to date is minimal as it has been agreed that the scheme will now be delivered in the next control period.
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year and the control period to date is less than the baseline. This is due to deferrals across all of the programmes in this heading, as 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. In the current year, expenditure was lower than the baseline which has contributed to the lower spending in the control period to date. This includes delays in securing necessary planning consents and delays from agreeing third party funding contributions and subsequent postponement in contract awards. Whilst expenditure is expected to ramp up next year, overall some of the programme is being deferred into CP6.
 - b. Bow Junction upgrade - this project is designed to help relieve overcrowding and supports the achievement of the capacity metric in the Government's 2012 HLOS on core main line services between Shenfield and London Liverpool. Expenditure on this programme is lower than the Hendy baseline as work has been postponed until CP6.
 - c. 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. In the current year expenditure is lower than the baseline continuing the trend for the control period to date. This has been partly caused by delays (which are expected to be caught up in the final year of CP6), but also due to the recognition of financial outperformance (refer to Statement 5a).
- (10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a capital grant from DfT in the year which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is slightly higher than the ORR assumed mainly due to additional investment in income generating schemes. Notable variances to the baseline include:

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

In £m 2017-18 prices unless stated

- a. 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 6a). 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 current year is higher with the regulator's target but broadly in line for the control period to date. The main investment this year was at Liverpool Street station. Expenditure was lower than the previous year which included investment to improve the quality of the arches part of the property estate.
 - b. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme in England & Wales. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. A portion of this grant has been allocated to each of the operational routes in England & Wales.
- (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 2a) or recognised as financial performance (refer to Statement 5c) 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 – notable programmes in this category in the current year include Network Rail contributions to Gospel Oak to Barking electrification. Crossrail and Cambridge North Station development. No schemes were included under this funding category last year so there is a noticeable increase this year.
 - b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.
 - c. PAYGO – as noted above, in the control period this includes an element of the contribution that DfT made this year to the enhancement portfolio in Anglia, reducing the amount that is added to the RAB in the above categories and increasing expenditure in this area. The level of expenditure in this category is lower than the previous year, which, as highlighted in last year's Regulatory Financial Statements, included significant investment on Barking to Gospel Oak Electrification and the development of a new station at Cambridge North. 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 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	3,294	2,964	(330)	2,645	2,577	(68)
Income						
Grant income	(407)	(413)	(6)	(1,570)	(1,566)	4
Fixed charges	(34)	(35)	(1)	(122)	(123)	(1)
Variable charges	(108)	(125)	(17)	(423)	(455)	(32)
Other single till income	(83)	(96)	(13)	(314)	(341)	(27)
Total income	(632)	(669)	(37)	(2,429)	(2,485)	(56)
Expenditure						
Network operations	56	42	(14)	202	169	(33)
Support costs	38	46	8	156	191	35
Traction electricity, industry costs and rates	71	88	17	276	307	31
Network maintenance	131	110	(21)	517	441	(76)
Schedule 4	34	19	(15)	103	81	(22)
Schedule 8	23	-	(23)	57	1	(56)
Renewals	206	214	8	912	896	(16)
PR13 enhancement	179	153	(26)	594	342	(252)
Non-PR13 enhancement	56	-	(56)	68	-	(68)
Total expenditure	794	672	(122)	2,885	2,428	(457)
Financing						
Interest expenditure on nominal debt - FIM covered	26	53	27	123	181	58
Interest expenditure on index linked debt - FIM covered	18	21	3	74	81	7
Expenditure on the FIM	21	34	13	97	127	30
Interest expenditure on government borrowing	58	-	(58)	117	-	(117)
Interest on cash balances held by Network Rail	-	(2)	(2)	(3)	(6)	(3)
Total interest costs	123	106	(17)	408	383	(25)
Accretion on index linked debt - FIM covered	50	50	-	118	174	56
Total financing costs	173	156	(17)	526	557	31
Corporation tax	-	-	-	-	-	-
Other	89	-	(89)	91	46	(45)
Movement in net debt	424	159	(265)	1,073	546	(527)
Closing net debt	3,718	3,123	(595)	3,718	3,123	(595)

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	PR13 2017-18
Adjusted interest cover ratio (AICR)	0.80	0.83	0.90	0.43	1.29
FFO/interest	2.95	2.94	2.65	2.27	3.45
Net debt/RAB (gearing)	68.8%	69.3%	70.8%	74.1%	67.3%
FFO/debt	9.4%	9.0%	9.1%	7.5%	11.6%
RCF/debt	6.1%	6.0%	6.0%	4.2%	8.3%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.4%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	n/a

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

In £m nominal unless otherwise stated

Note:

- (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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. 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) Network Rail's debt attributable to Anglia 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. In addition net operating costs and outflows arising from working capital management were higher than the determination expected.
- (3) Net debt attributable to Anglia at 31 March 2018 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, higher net operating costs and movements in working capital have driven increases in debt. These extra cash outflows have been partly mitigated by financing costs savings.
- (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 other 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 as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(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 made 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 higher than the regulator assumed this year. This is mainly due to higher than expected average debt attributed to Anglia this year than the regulator estimated. As noted above, this is largely due to higher debt at start of the control period (following additional investment undertaken towards the end of CP4), higher investment in the railway network, higher performance regime costs, higher net operating costs and movements in working capital. Costs for the control period to date are lower than the regulator expected mainly due to lower interest rates charged on the DfT loan facility compared to the regulatory expectation of the rates Network Rail would have to pay to borrow from the market. Actual market rates (as reflected in the DfT charges) have been much lower than the regulator assumed as macro-economic factors have caused the Bank of England to keep base rates at historically low levels. In addition, inflation has been lower than the determination expected across the control period to date resulting in cheaper interest costs.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are in line higher than the previous year.

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

In £m nominal unless otherwise stated

- c. 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - d. Financing costs – accretion on index linked debt – FIM covered – costs are broadly in line with those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) which offsets higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination, 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of funding made available during the course of construction on enhancement projects.
- (14) Financial indicators – ratios are defined as follows:

Ratio	Description
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 June 2017. ****Retained cash flow (RCF) is defined as FFO minus net interest.

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

In £m nominal unless otherwise stated

- (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 an 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 and Maintenance costs and lower turnover partly offset by savings in Support costs as described elsewhere in these accounts. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.
- (17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.
- (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 2017/18 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. 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 absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements. The ratio is higher than the previous year which, given the nature of Network Rail's business is to be expected. Following the reclassification of Network Rail to a Central Government Body the importance of the Debt:RAB ratio has diminished as a measure of financial stewardship. Instead, DfT have taken a closer role in assessing financial stability. This has included setting a borrowing limit on Network Rail for the control period and not allowing borrowings from any other source other than this DfT facility. In addition, they have replaced the existing members of Network Rail Limited with a special member in the employ of DfT as well as setting annual limits on capital and resource expenditure which are subject to monthly monitoring.

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

In £m nominal unless otherwise stated

- (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 reasons for the adverse variance to the regulator's assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs, along with a higher debt (following differences in the CP4 exit position and extra capital investment). The decline in the ratio this year is expected as the level of debt increases but also as the surplus funds from trading has decreased, caused by higher performance regime costs and property sales.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Anglia

In £m 2017-18 prices unless stated

2017-18

	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 $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	407	413	(6)	(6)	-	-	-	-
Fixed Income	34	35	(1)	(1)	-	-	-	-
Variable Income	64	66	(2)	-	-	-	(2)	(2)
Other Single Till Income	83	96	(13)	-	-	-	(13)	(13)
Opex memorandum account	(1)	-	(1)	1	-	-	(2)	(2)
Total Income	587	610	(23)	(6)	-	-	(17)	(17)
Expenditure								
Network operations	56	42	(14)	-	-	-	(14)	(14)
Support costs	38	46	8	1	-	-	7	7
Industry costs and rates	29	27	(2)	(1)	-	-	(1)	(1)
Traction electricity	(2)	2	4	-	-	-	4	4
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	131	110	(21)	-	2	-	(23)	(23)
Schedule 4 costs	34	19	(15)	-	8	-	(23)	(23)
Schedule 8 costs	23	-	(23)	-	-	-	(23)	(23)
Renewals	206	214	8	1	96	-	(89)	(23)
PR13 Enhancements	179	124	(55)	-	(18)	-	(37)	(7)
Non PR13 Enhancements	56	-	(56)	-	(55)	-	(1)	(1)
Financing Costs	173	156	(17)	(17)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	923	740	(183)	(16)	33	-	(200)	(104)
Total:			(206)	(22)	33	-	(217)	(121)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(121)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(28)
Under-delivery of train performance requirements (CaSL)								(15)
Missed milestones for asset management - data quality								(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(44)
Total financial out / (under) performance to be recognised								(165)

Statement 5a: Total financial performance, Anglia - continued

In £m 2017-18 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
			Favourable / (Adverse)					
Income								
Grant Income	1,637	1,632	5	5	-	-	-	-
Fixed Income	128	128	-	-	-	-	-	-
Variable Income	261	266	(5)	-	-	-	(5)	(5)
Other Single Till Income	329	359	(30)	-	-	-	(30)	(30)
Opex memorandum account	(3)	-	(3)	(4)	-	-	1	1
Total Income	2,352	2,385	(33)	1	-	-	(34)	(34)
Expenditure								
Network operations	210	177	(33)	-	-	-	(33)	(33)
Support costs	162	195	33	4	-	-	29	29
Industry costs and rates	107	103	(4)	3	-	-	(7)	(7)
Traction electricity	3	7	4	-	-	-	4	4
Reporter's fees	1	1	-	-	-	-	-	-
Network maintenance	538	460	(78)	-	(4)	-	(74)	(74)
Schedule 4 costs	107	84	(23)	-	26	-	(49)	(49)
Schedule 8 costs	60	1	(59)	-	-	-	(59)	(59)
Renewals	952	934	(18)	2	344	-	(364)	(92)
PR13 Enhancements	616	313	(303)	-	(244)	-	(59)	(16)
Non PR13 Enhancements	70	-	(70)	-	(69)	-	(1)	(1)
Financing Costs	540	557	17	17	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	3,366	2,832	(534)	26	53	-	(613)	(298)
Total:			(567)	27	53	-	(647)	(332)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(332)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(62)
Under-delivery of train performance requirements (CaSL)								(27)
Missed milestones for asset management - data quality								(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(94)
Total financial out / (under) performance to be recognised								(426)

Statement 5a: Total financial performance, Anglia – continued

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 assess 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 in the year 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.

Statement 5a: Total financial performance, Anglia – continued

In £m 2017-18 prices unless stated

- (3) Variable income – across the control period to date, Network Rail has ran fewer trains than expected and so has achieved less Capacity charge income than the regulatory target. 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. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – this year, financial underperformance has been reported. This is mainly due to reduced property rental income compared to the determination. Although rental income is in line with the previous year regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. In addition, station income has been lower than planned with responsibility for stations passing to the c2c franchise operator on a long-term lease. This reduces Network Rail's income but also running costs. The variance in the control period to date is due to the same factors. Other single till income is set out in more detail in Statement 6a.
- (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 penalties under the volume incentive mechanism as the only aspect of the Opex memorandum account which influences the FPM this year and in the control period to date. Slower passenger numbers and industry revenue this year have negated most of the benefit earned earlier the control period arising from extra passenger demand. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, Anglia – continued

In £m 2017-18 prices unless stated

- (6) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.
- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business, continuing the trend of earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D.

Statement 5a: Total financial performance, Anglia – continued

In £m 2017-18 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 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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at major transport hubs in other routes on the network (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a marginal adverse variance to the determination target this year which partly offsets savings made earlier in the control period.
- (10) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

Statement 5a: Total financial performance, Anglia – continued

In £m 2017-18 prices unless stated

- (11) Schedule 4 costs – costs are higher this year than the determination assumed which is mostly due to less efficient possessions and costs arising from disruption caused by Storm Emma partly offset by undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed a certain level of average possession costs for each type of renewals activity in each of the routes. This was based upon a sample of possession costs and outputs data from CP4. The regulator then imposed an efficiency challenge upon these numbers. These targets haven't been achieved in CP5 partly as a result of constrained access making longer possession windows difficult to secure (thus increasing the average cost of renewals delivery as set up and shut down costs are occurred more often), partly from a targeting of the right type of work (rather than undertaking extra work that may not be needed to reduce unit costs and the average possession costs) and also from increased safety requirements. Financial underperformance has been reported for the control period to date for the reasons noted above as well as because of adverse weather events. As noted in the Regulatory financial statements for the earlier years of the control period certain one-off events resulted in significant costs incurred by network Rail whilst the infrastructure was being remediated.
- (12) Schedule 8 costs – costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance this year was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. In addition, network trespass and asset failures continue to influence performance.

Statement 5a: Total financial performance, Anglia – continued

In £m 2017-18 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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (14) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with the Crossrail being the dominant contributors in the current year and the control period to date. Individual programme variances are 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). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (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 higher than the regulator expected mainly due higher levels of net debt during the year compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, Anglia – continued

In £m 2017-18 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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.
- (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 2017/18, continuing the trend of the earlier years 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 2017/18, continuing the trend of earlier years 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.
- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.
- (5) Asset management – the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this year.

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

In £m 2017-18 prices unless stated

2017-18								
	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)	(2)	(24)	(6)		(6)	-	-
Signalling	23	39	(16)	(4)		(4)	-	-
Civils	(4)	16	(20)	(5)		(5)	-	-
Buildings	(1)	3	(4)	(1)		(1)	-	-
Electrical power and fixed plant	1	13	(12)	(3)		(2)	(1)	-
Telecoms	(1)	(1)	-	-		(1)	1	-
Wheeled plant and machinery	7	7	-	-		-	-	-
IT	1	1	-	-		-	-	-
Property	3	3	-	-		-	-	-
Other renewals	5	18	(13)	(4)		(4)	-	-
Total	8	97	(89)	(23)		(23)	-	-

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	(76)	76	(152)	(38)		(35)	(3)	-
Signalling	86	134	(48)	(12)		(13)	1	-
Civils	(17)	47	(64)	(16)		(16)	-	-
Buildings	2	22	(20)	(5)		(5)	-	-
Electrical power and fixed plant	41	81	(40)	(10)		(7)	(3)	-
Telecoms	(7)	(7)	-	-		-	-	-
Wheeled plant and machinery	21	21	-	-		-	-	-
IT	(8)	(8)	-	-		-	-	-
Property	11	11	-	-		-	-	-
Other renewals	(71)	(31)	(40)	(11)		(8)	(3)	-
Total	(18)	346	(364)	(92)		(84)	(8)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

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, continuing the trend from the previous years of the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

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

In £m 2017-18 prices unless stated

- (2) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. 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.
- (3) 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. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. There have been a number of instances of network degradation in Anglia this control period notably at Camden viaduct, which has required investment to remediate. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents.

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

In £m 2017-18 prices unless stated

- (4) 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. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. Cash constraints have resulted in more simplistic interventions which are not necessarily the best whole-life cost solution and so attract financial underperformance. The underperformance in the control period to date is largely due to the same factors.
- (5) Electrical power and fixed plant – as with earlier years of the control period, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. The costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation, which has been exacerbated by priority for plant being given to support the Great Western electrification enhancement programme. 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. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. The underperformance in the control period to date is largely due to the same factors.
- (6) Other – this is made up of a number of different categories including the following:
- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
 - b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.
 - c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constraints the activities required to build capacity for CP6 and beyond is now funded through renewals.

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

In £m 2017-18 prices unless stated

- d. CP4 rollover: 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. The underperformance recognised in the control period to date includes notable contributions from electrification projects and FTN.

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

In £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(2)	(1)	-	(1)	-
Crossrail	(137)	(101)	-	(36)	(8)
Seven day railway	1	1	-	-	-
Anglia Traction power supply upgrade	5	(1)	-	6	2
Other Enhancements	22	29	-	(7)	(2)
Total	(111)	(73)	-	(38)	(8)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	4	4	-	-	-
Crossrail	(424)	(366)	-	(58)	(17)
Seven day railway	1	1	-	-	-
Anglia Traction power supply upgrade	17	11	-	6	2
Other Enhancements	29	37	-	(8)	(2)
Total	(373)	(313)	-	(60)	(17)

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

In £m 2017-18 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 and so 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 their 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 incoming 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). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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) 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. In addition, higher contractor costs have been caused by design updates and changes in access strategy. Efficiency challenges in the original plans have not been achieved putting further pressure on funding. The strategic importance for the overall railway network of completing this programme to agreed timescales places extra strain on efficient delivery. 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) Anglia Traction power supply upgrade – savings have been made to the total expected project costs this year following a review of feeder station locations. This has allowed closer placement, reducing the amount of cabling required and quickening the delivery of the work.

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

In £m 2017-18 prices unless stated

- (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. In addition, minor financial performance variances are captured through this heading. The main items relating to Anglia is extra investment in a new station at Cambridge North to offer additional travel opportunities for passengers in that region.

Statement 5d: Total financial performance - REBS performance, Anglia

In £m 2017-18 prices unless stated

	A	B	C	D	E	F	G
				Cumulative to 2017-18			
				Deferral			
				(acceleration) of			
	Actual	REBS Baseline	Variance to REBS Baseline	work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	91	76	15	-	-	-	15
Capacity charge	108	111	(3)	-	-	-	(3)
Electricity asset utilisation charge	12	12	-	-	-	-	-
Property income	200	194	6	-	-	-	6
Expenditure							
Network operations	210	168	(42)	-	-	-	(42)
Support costs	162	200	38	-	2	-	36
RSSB and BT Police	38	31	(7)	-	-	-	(7)
Network maintenance	538	482	(56)	8	-	-	(64)
Schedule 4 costs	107	95	(12)	37	-	-	(49)
Schedule 8 costs	60	-	(60)	-	-	-	(60)
Renewals	952	954	2	366	-	(272)	(92)
Total REBS performance			(119)	411	2	(272)	(260)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(62)
Under-delivery of train performance requirements (CaSL)							(27)
Missed milestones for asset management - data quality							(1)
Missed ORBIS milestones							(4)
Total adjustment for under delivery of outputs and reduced sustainability							(94)
Cumulative performance to end of 2017-18							(354)
Less cumulative outperformance recognised up to the end of 2016-17							(213)
Net REBS performance for 2017-18							(141)

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

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

In £m 2017-18 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	407	413	(6)	1,637	1,632	5	411
Franchised track access income							
Fixed charges	34	35	(1)	128	128	-	29
Variable charges							
Variable usage charge	15	15	-	58	58	-	15
Traction electricity charges	44	59	(15)	179	207	(28)	44
Electrification asset usage charge	3	3	-	12	12	-	3
Capacity charge	26	28	(2)	103	108	(5)	26
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	20	20	-	88	88	-	27
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	108	125	(17)	440	473	(33)	115
Total franchised track access income	142	160	(18)	568	601	(33)	144
Total franchised track access and grant income	549	573	(24)	2,205	2,233	(28)	555
Other single till income							
Property income	51	63	(12)	207	230	(23)	61
Freight income	7	9	(2)	27	30	(3)	6
Open access income	7	3	4	22	9	13	6
Stations income	9	12	(3)	42	55	(13)	10
Facility and financing charges	2	3	(1)	6	11	(5)	1
Depots Income	7	6	1	25	23	2	6
Other income	-	-	-	-	1	(1)	-
Total other single till income	83	96	(13)	329	359	(30)	90
Total income	632	669	(37)	2,534	2,592	(58)	645

Statement 6a: Analysis of income, Anglia – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower government grants (arising from lower inflation) and lower property rental income. Income for the control period to date is lower than the regulatory target due to lower traction electricity income and property rental income. Income is lower than the previous year mainly due to lower property disposals in the current year.

Statement 6a: Analysis of income, Anglia – continued

In £m 2017-18 prices unless stated

- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only 10.96 per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table. Grant income is slightly lower than the previous year which is in line with the regulator's expectation in the PR13, with more income instead coming directly from operators through Fixed charges.

- (4) Fixed charges – fixed charge income was broadly in line with the determination this year and in the control period to date. Any variance to the determination arises from differences 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 on Grant income. 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 higher than last year but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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 favourable settlements of commercial claims this year which contributed to the net traction electricity outperformance. Income was in line with the previous year as were the costs payable by Network Rail for electricity (refer to Statement 7a). As market prices have been lower than the regulator assumed in each of the last four years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (6) Capacity charge – income in the control period to date has been lower than the regulator expected due to fewer trains being ran on the Anglia route than the regulator anticipated.

Statement 6a: Analysis of income, Anglia – continued

In £m 2017-18 prices unless stated

- (7) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income. The noticeable reduction compared to the previous year is a function of the regulator's assumption for CP5, which assumed reductions in Network Rail's schedule 4 costs (which this income is designed to cover) over the control period due to year-on-year reductions in renewals investment and possession planning efficiencies.
- (8) Property income – this is lower than the determination target this year mostly due to lower property rental income. Although rental income is in line with the previous year regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. In the control period to date, which was itself lower than the regulator's determination, (refer to Statement 3) has been invested in income generating property schemes. The adverse variance in the control period to date is due to the same factor. Property income this year is lower than the previous year which benefitted from high property sales income. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway.
- (9) Open access income – this continues to outperform the regulatory assumption as Network Rail provides additional services to operators in response to customer demand.
- (10) Stations income – revenue earned this year is lower than the regulator expected. This is a result of stations associated with the c2c franchise passing to the operator. This reduces Network Rail's income but also running costs. The variance in the control period to date is due to the same factor.
- (11) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination this control period 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. Income has increased slightly compared to the previous year but still remains lower than the regulatory determination.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Property Income							
Property rental	46	59	(13)	179	215	(36)	47
Property sales	5	7	(2)	28	26	2	14
Adjustment for commercial opex	-	(3)	3	-	(11)	11	-
Total property income	51	63	(12)	207	230	(23)	61
Freight income							
Freight variable usage charge	5	5	-	21	18	3	5
Freight traction electricity charges	1	2	(1)	4	5	(1)	1
Freight electrification asset usage charge	-	-	-	-	1	(1)	-
Freight capacity charge	1	1	-	2	3	(1)	-
Freight only line charge	-	1	(1)	-	1	(1)	-
Freight specific charge	-	-	-	-	1	(1)	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	7	9	(2)	27	30	(3)	6
Open access income							
Variable usage charge income	4	-	4	12	-	12	4
Open access capacity charge	1	-	1	3	-	3	1
Open access traction electricity charges	-	1	(1)	-	1	(1)	-
Fixed contractual contribution	2	2	-	7	8	(1)	1
Open access other income	-	-	-	-	-	-	-
Total open access income	7	3	4	22	9	13	6
Stations income							
Managed stations income							
Long term charge	4	4	-	16	18	(2)	4
Qualifying expenditure	3	4	(1)	13	13	-	3
Total managed stations income	7	8	(1)	29	31	(2)	7
Franchised stations income							
Long term charge	2	3	(1)	12	19	(7)	3
Stations lease income	-	1	(1)	1	5	(4)	-
Total franchised stations income	2	4	(2)	13	24	(11)	3
Total stations income	9	12	(3)	42	55	(13)	10
Facility and financing charges							
Facility charges	2	3	(1)	6	11	(5)	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	2	3	(1)	6	11	(5)	1
Depots income	7	6	1	25	23	2	6
Other	-	-	-	-	1	(1)	-
Total other single till income	83	96	(13)	329	359	(30)	90

Statement 6b: Analysis of other single till income (unaudited), Anglia – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	25	22	(3)	100	94	(6)	25
Signalling shift managers	3	1	(2)	10	6	(4)	2
Local operations managers	3	2	(1)	9	6	(3)	2
Controllers	4	3	(1)	16	13	(3)	4
Electrical control room operators	1	1	-	5	4	(1)	2
Total signaller expenditure	36	29	(7)	140	123	(17)	35
Non-signaller expenditure							
Mobile operations managers	6	3	(3)	23	13	(10)	5
Managed stations	4	4	-	15	15	-	4
Performance	2	1	(1)	10	6	(4)	2
Customer relationship executives	1	1	-	2	3	1	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	2	2	-	8	8	-
Other	4	1	(3)	24	5	(19)	5
Operations delivery	4	-	(4)	19	-	(19)	5
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	4	3	(1)	5	12	7	(1)
Other operating income	(5)	(2)	3	(28)	(8)	20	(4)
Total non-signaller expenditure	20	13	(7)	70	54	(16)	17
Total network operations expenditure	56	42	(14)	210	177	(33)	52
Support costs							
Core support costs							
Human resources	1	5	4	12	23	11	1
Information management	6	6	-	24	27	3	6
Government and corporate affairs	1	2	1	4	7	3	1
Group strategy	1	1	-	4	5	1	1
Finance	2	3	1	8	11	3	2
Business services	2	1	(1)	6	4	(2)	3
Accommodation	9	12	3	45	49	4	12
Utilities	3	4	1	15	17	2	4
Insurance	4	4	-	11	19	8	(1)
Legal and inquiry	-	1	1	4	2	(2)	1
Safety and sustainable development	2	1	(1)	8	3	(5)	1
Strategic sourcing	1	1	-	4	4	-	1
Business change	-	-	-	1	1	-	-
Other corporate functions	2	-	(2)	9	1	(8)	2
Core support costs	34	41	7	155	173	18	34
Other support costs							
Asset management services	3	3	-	13	11	(2)	2
Network Rail telecoms	3	3	-	16	15	(1)	3
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(9)	-	9	(2)
Commercial property	2	(1)	(3)	(2)	(3)	(1)	-
Group costs	(2)	-	2	(11)	(2)	9	(1)
Total other support costs	4	5	1	7	22	15	2
Total support costs	38	46	8	162	195	33	36
Traction electricity, industry costs and rates							
Traction electricity	42	61	19	182	214	32	44
Business rates	18	18	-	61	64	3	14
British transport police costs	7	6	(1)	34	28	(6)	8
RSSB costs	1	1	-	4	3	(1)	1
ORR licence fee and railway safety levy	2	2	-	7	7	-	1
Reporters fees	-	-	-	1	1	-	-
Other industry costs	1	-	(1)	1	1	-	1
Total traction electricity, industry costs and rates	71	88	17	290	318	28	69
Total network operations expenditure, support costs, traction electricity, industry costs and rates	165	176	11	662	690	28	157

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are lower than the determination assumed this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised, more than offset by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a) and lower costs in central functions.
- (3) 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.
- (4) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are higher than the previous year which includes the impact arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling and additional resilience response teams costs.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.

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

In £m 2017-18 prices unless stated

- (6) 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (7) Insurance - costs are favourable to the determination this year and the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslide at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, *ceteris paribus*, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (8) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.
- (9) Other corporate functions – costs are noticeably higher than the determination assumed in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are broadly line with the previous year.

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

In £m 2017-18 prices unless stated

- (10) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (11) Commercial Property – net costs in the year are higher than the regulatory estimate. This is largely due to a significant amount of doubtful debts recognised this year. These extra costs in the current year have negated savings made earlier in the control period which had been achieved mainly from additional income generated across multiple initiatives. Net costs in the current year are higher than the previous year due to the aforementioned increase in doubtful debts.
- (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 mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator expected. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is in line with the previous year.
- (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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs partly offset by extra British Transport Police costs. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media.
- (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 6a and Statement 6b). Control period to date costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are broadly in line with the previous year.

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

In £m 2017-18 prices unless stated

- (15) 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 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 any additional costs in through the Opex memorandum account mechanism (refer to Statement 10). Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency.
- (16) British Transport Police costs - expenses in the year are higher than the determination assumed. 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. This year's costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents in other routes at major transport hubs (including Manchester Victoria and London Bridge). In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year are in line with the previous year.

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

In £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	26	28	27	27	28
MOMS	2	6	5	5	6
Control	4	5	6	6	5
Planning & Performance Staff Costs	4	5	4	4	5
Managed Stations Staff Costs	2	1	1	0	1
Operations Management Staff Costs	2	1	1	1	1
Other	13	6	8	9	10
Total operations & customer services costs	53	52	52	52	56
Total Network Operations	53	52	52	52	56
Support					
Human resources					
Functional support	3	1	2	1	1
Training (inc Westwood)	2	1	1	0	0
Graduates	0	0	0	0	0
Apprenticeships	1	1	1	0	0
Other	0	1	0	0	0
Total human resources	6	4	4	1	1
Information management					
Support	1	1	1	1	1
Projects	0	0	0	0	0
Licences	0	0	0	0	0
Business operations	6	5	5	5	5
Other	0	0	0	0	0
Total information management	7	6	6	6	6
Finance	2	2	2	2	2
Business Change	0	0	0	0	0
Contracts & Procurement	1	0	0	0	0
Strategic Sourcing (National Supply Chain)	0	1	1	1	1
Planning & development	1	1	1	1	1
Safety & compliance	1	0	0	0	0
Other corporate services	5	1	2	3	2
Commercial property	12	14	10	12	11
Infrastructure Projects	(5)	(2)	(3)	(2)	(2)
Route Services	1	2	1	1	1
Central Route Services (inc National Supply Chain)	0	0	0	0	0
Asset management & Engineering/Asset heads	15	0	0	0	0
National delivery service	0	0	0	0	0
Private party	0	0	0	0	0
Utilities	0	4	3	4	3
Network Rail Telecoms	0	6	4	3	3
Digital Railway	0	2	2	1	1
Safety Technical & Engineering	0	4	6	2	4
Government & Corporate Affairs	0	1	1	1	1
Business Services	0	1	1	3	2
Route Asset Management	0	(2)	0	(2)	(1)
Legal and inquiry	0	1	1	1	0
Group/central					
Pensions	0	0	0	0	0
Insurance	3	3	5	(1)	4
Redundancy/reorganisation costs	6	2	1	1	1
Staff incentives/Bonus Reduction	0	(2)	(1)	0	(1)
Accommodation & Support Recharges	0	(3)	(3)	(2)	(2)
Commercial claims settlements	0	0	(1)	0	0
ORR financial penalty	9	(2)	0	0	0
Other	0	0	1	0	0
Total group/central costs	18	(2)	2	(2)	2
Total support	64	44	44	36	38
Total network operations and support costs	117	96	96	88	94

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Anglia – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	68	40	(28)	263	167	(96)	65
Signalling	24	19	(5)	93	78	(15)	23
Civils	13	12	(1)	58	50	(8)	15
Buildings	-	5	5	4	18	14	1
Electrical power and fixed plant	13	11	(2)	52	48	(4)	13
Telecoms	2	2	-	8	8	-	2
Other network operations	9	15	6	50	64	14	10
Asset management services	3	4	1	14	14	-	4
National Delivery Service	(1)	4	5	(4)	18	22	(1)
Property	2	-	(2)	8	2	(6)	2
Group	(2)	(2)	-	(8)	(7)	1	(2)
Total maintenance expenditure	131	110	(21)	538	460	(78)	132

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

In £m 2017-18 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 previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, as well as higher than expected reactive maintenance and management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by higher asset inspection costs. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but 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 base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17 with some extra expenses resulting from legal changes affecting overtime.

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

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes (as discussed in Statement 9a). This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting legal changes to overtime and further deferrals of renewals programmes requiring extra asset maintenance instead. Costs are in line with the previous year.
- (4) Civils – costs were broadly in line with the determination which reflected extra civils inspection costs partly offset by savings in reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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 other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Costs in the control period to date are higher than the determination mainly due to the extra asset inspection costs incurred. Expenditure is broadly in line with the previous year reflecting reductions in reactive maintenance offset by additional structures inspections costs.

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

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is lower than the regulator assumed, following the trend of the first three years of the control period. This is mainly due to a transfer of responsibility for some of the stations in the Anglia route transferring from Network Rail to the operator. Variances in this category 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 – costs in the control period to date are higher than the regulator expected, largely as a result of the challenging efficiencies included in the determination not being achieved.
- (7) Other network operations – costs for the current year and the control period to date are lower than the regulator's expectation largely due to a transfer of responsibilities (and so costs) from Other network operations into the track category. This is to give greater understanding of underlying costs and provide greater accountability to the front line management teams. Costs are in line with the prior year.
- (8) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.
- (9) 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).

Statement 9a: Summary analysis of renewals expenditure, Anglia

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	cumulative	Cumulative PR13	Difference	2016-17 Actual
Track	76	50	(26)	337	261	(76)	93
Signalling	36	59	23	136	222	86	20
Civils	21	17	(4)	119	102	(17)	22
Buildings	9	8	(1)	37	39	2	6
Electrical power and fixed plant	29	30	1	131	172	41	47
Telecoms	4	3	(1)	28	21	(7)	9
Wheeled plant and machinery	5	12	7	29	50	21	6
Information Technology	7	8	1	42	34	(8)	8
Property	2	5	3	7	18	11	1
Other renewals	17	22	5	86	15	(71)	12
Total renewals expenditure	206	214	8	952	934	(18)	224

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

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is slightly lower than the determination expected which is a combination of net deferrals of activity partially than offset by higher underlying costs (notably in Track, Signalling, and Civils and Electrification & fixed plant). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is broadly in step with the determination assumption. Investment is lower than the previous year with reductions in Track and Electrification & fixed plant partly offset by increased signalling investment, notably in the Norwich to Yarmouth and Lowestoft re-signalling programme.
- (2) Track – expenditure this year is higher than the regulator assumed due to higher underlying project costs, reflecting the experiences of the control period to date. These higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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 in the control period has been higher than the regulator expected, reflecting the higher underlying costs discussed above partly offset by deferral of activity. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered. This was most evident in High Output where concerns over the productivity led to a planned reduction in the level of activity.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was lower than the determination expected mostly due to lower investment in level crossing programmes and deferral of the Colchester re-signalling scheme until CP6. In the control period to date expenditure is lower than the regulator's baseline. This is due to deferral of activity partly offset by higher like-for-like costs. The deferrals include investment in level crossings as a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally has caused delays. Deferrals in the control period to date also includes the aforementioned Colchester re-signalling scheme, Norwich to Yarmouth and Lowestoft (now planned to be largely completed in 2018/19) and Cambridge interlocking works. Like-for-like costs have been higher this control period including extra spend in the Minor works category to maintain asset condition and performance in light of the deferral of larger programmes. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 this year were higher than in 2016/17 as activity ramps up on the Norwich to Yarmouth and Lowestoft programme.
- (4) Civils – expenditure in the year was higher than the regulator anticipated as higher underlying costs were partly mitigated by deferral of activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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 for the control period to date is higher than the determination expected with notable contributions from Underbridges and Earthworks. The higher expenditure is due to higher underlying costs being partly offset by deferral. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Investment is broadly in line with the previous year.

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

In £m 2017-18 prices unless stated

- (5) Buildings – whilst expenditure in the year and the control period to date was in line with the regulator's assumption, this was mostly due to lower volumes of activity offset by higher underlying costs. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's ever increasing efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. 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 (June 2017) 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 but with some additional works on Liverpool Street station this year.
- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year. Expenditure in the control period to date is lower than the determination anticipated. This is partly due to delays across the portfolio and some of this shortfall is expected to be caught up in the final year of the control period. The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development alongside concentration of technical resources on the Great Western Electrification programme have contributed to the slower rate of spend. This SCADA underspend in the control period to date is anticipated to be partly reduced in the final year of the control period where additional investment is expected in this programme. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. In addition there has been financial underperformance this control period, mostly caused by overoptimistic efficiency targets set at the start of the control period, increases in the tender price index (thus increasing supplier costs) and increases in the SCADA (Supervisory Control And Data Acquisition) programme. The latter is due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. Consequently, Electrical power and fixed plant financial underperformance has been recognised in the control period (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 (June 2017) 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).
- (7) Telecoms – expenditure in the year was broadly in line with the determination this year but is higher in the control period to date with the largest contribution from the Non-route capital expenditure heading. As the name implies, this is a centrally-managed fund, the costs of which are allocated to each of the operational routes. Major projects in this category this control period include works undertake on FTN, GSMR and reducing cab radio interference.. Expenditure is lower than the previous year, which included investment in licences and resilience projects as services are migrated from life-expired system.

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

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is in line with the previous year.
- (9) Information technology – investment in the year is lower than the determination assumed, but higher in the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are lower than the regulator's assumption in the current year and the control period to date. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. Given the bespoke nature of these schemes annual expenditure can be uneven.. The lower levels of investment reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity.
- (11) Other renewals includes the following notable items:
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure was lower than the previous year as programme milestones are delivered. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).

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

In £m 2017-18 prices unless stated

- b. Intelligent infrastructure – expenditure is lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – expenditure in this category continues to lag behind the regulator's assumption this control period, a trend that is expected to continue into the final year of the control period. In light of the financial constraints the company faces resources have been redirected to those areas expected to have greater immediate impact on the passenger experience (such as track renewals and maintenance). Most of this fund has now been deferred into future control periods.
- d. Research and development – research and development activity in the control period to date has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has to be funded through renewals. As a result values are included for the first time this year. As there was no renewals funding in the determination this is included as underperformance 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 2a).
- 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 with variances in the control period to date being reversed in the final year of the control period. 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 the previous control period (CP4), 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 current year is on 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).
- g. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail were to invest in this type of network improvement.

Statement 9b: Detailed analysis of renewals expenditure, Anglia

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	27	18	(9)	109	82	(27)
High output renewal	16	4	(12)	93	59	(34)
Plain line refurbishment	1	-	(1)	12	1	(11)
S&C renewal	17	21	4	83	87	4
S&C refurbishment	5	4	(1)	11	17	6
Track non-volume	2	3	1	7	15	8
Off track	8	-	(8)	22	-	(22)
Total track	76	50	(26)	337	261	(76)
Signalling						
Full conventional resignalling	10	8	(2)	23	18	(5)
Modular resignalling	-	1	1	2	18	16
ERTMS resignalling	-	-	-	2	1	(1)
Partial conventional resignalling	1	13	12	4	44	40
Targeted component renewal	-	2	2	-	2	2
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	1	1	-	47	23	(24)
Level crossings	13	25	12	29	79	50
Minor works	10	5	(5)	27	21	(6)
Centrally managed costs	1	4	3	2	16	14
Other	-	-	-	-	-	-
Total signalling	36	59	23	136	222	86
Civils						
Underbridges	8	4	(4)	65	50	(15)
Overbridges	9	4	(5)	12	14	2
Bridgeguard 3	-	-	-	-	-	-
Major structures	1	1	-	4	1	(3)
Tunnels	-	2	2	-	3	3
Other assets	1	3	2	7	10	3
Structures other	-	-	-	1	3	2
Earthworks	2	3	1	33	21	(12)
Other	-	-	-	(3)	-	3
Total civils	21	17	(4)	119	102	(17)
Buildings						
Managed stations	5	2	(3)	9	14	5
Franchised stations	-	3	3	8	13	5
Light maint depots	-	1	1	5	2	(3)
Depot plant	1	2	1	5	7	2
Lineside buildings	-	-	-	4	2	(2)
MDU buildings	1	-	(1)	4	1	(3)
NDS depots	-	-	-	-	-	-
Other	2	-	(2)	2	-	(2)
Capitalised overheads	-	-	-	-	-	-
Total buildings	9	8	(1)	37	39	2

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	2	3	1	3	16	13
Overhead Line	25	22	(3)	106	122	16
DC distribution	(5)	-	5	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	1	-	(1)	3	6	3
Energy efficiency	-	1	1	2	4	2
System capability / capacity	-	-	-	-	-	-
Other electrical power	2	1	(1)	5	6	1
Fixed plant	4	3	(1)	12	18	6
Total electrical power and plant	29	30	1	131	172	41
Telecoms						
Operational communications	2	1	(1)	10	7	(3)
Network	-	1	1	3	8	5
SISS	-	-	-	-	-	-
Projects and other	-	-	-	2	2	-
Non-route capital expenditure	2	1	(1)	13	4	(9)
Total telecoms	4	3	(1)	28	21	(7)
Wheeled plant and machinery						
High output	-	1	1	12	12	-
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	1	1	1	2	1
Intervention	3	2	(1)	6	12	6
Materials delivery	1	-	(1)	4	1	(3)
On track plant	1	2	1	3	7	4
Seasonal	-	1	1	-	4	4
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	2	2
Road vehicles	-	4	4	2	9	7
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	5	12	7	29	50	21
Information Technology						
IM delivered renewals	7	7	-	40	30	(10)
Traffic management	-	1	1	2	4	2
Total information technology	7	8	1	42	34	(8)
Property						
MDUs/offices	1	4	3	4	13	9
Commercial estate	1	1	-	3	5	2
Corporate services	-	-	-	-	-	-
Total property	2	5	3	7	18	11
Other renewals						
Asset information strategy	2	2	-	13	17	4
Intelligent infrastructure	1	2	1	4	7	3
Faster isolations	1	3	2	3	15	12
LOWS	-	-	-	-	1	1
Small plant	1	1	-	2	4	2
Research and development	1	-	(1)	1	-	(1)
Phasing overlay	-	14	14	-	(29)	(29)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	10	-	(10)	59	-	(59)
Other	1	-	(1)	4	-	(4)
West Coast	-	-	-	-	-	-
Total other renewals	17	22	5	86	15	(71)
Total renewals	206	214	8	952	934	(18)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Anglia – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 10: Other information, Anglia

In £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	34	19	(15)	107	84	(23)	28
Access charge supplement Income	(20)	(20)	-	(88)	(88)	-	(27)
Net (income)/cost	14	(1)	(15)	19	(4)	(23)	1

Schedule 8

Performance element income	-	-	-	(2)	-	2	-
Performance element costs	23	-	(23)	62	1	(61)	21
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	23	-	(23)	60	1	(59)	21

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	(2)	1	2
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	-	(3)	(1)
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	-	-	(1)
Reporters fees	-	-	-
Other industry costs	1	-	1
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(1)	(3)	1

Statement 10: Other information, Anglia – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs this year are higher than the determination assumed. This is mostly due to less efficient possessions and costs arising from disruption caused by Storm Emma partly offset by undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a). Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are higher than the regulatory assumption. This is a combination of undertaking less renewals activity partially offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Costs are higher than the previous year which is due to a combination of higher delivery of those assets that require possessions (notably Track – full S&C and Plain line track), a higher average possession cost per renewals delivery and the impact of Storm Emma in February which resulted in number of services being cancelled in light of the snow.

Statement 10: Other information, Anglia – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance this year was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. In addition, network trespass and asset failures continue to influence performance. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still.
- (3) The opex memorandum currently shows a net loss for this year which is primarily due to lower than expected growth in passenger services and revenue in Anglia, resulting in a penalty under the Volume Incentive mechanism (refer to Statement 12). For the control period to date there is a net loss mostly arising from lower Business Rates than Anglia was funded for earlier in the control period.

Statement 11:

There is no Statement 11 required for Anglia

Statement 12: Volume incentives, Anglia

In £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(5)	(1)	28	28	1.8%	1.56	pence per passenger train mile
Passenger farebox (millions)	(5)	(1)	1,138	1,142	3.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	2	2	2.8%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	2	0	2,599	2,378	3.8%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	(9)	(2)					

The cumulative volume incentive is determined by the following calculation:

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

Where:
A_t = Actual in year quantity
B = 2017-18 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Anglia – continued

In £m 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result, reversing some of the gains made in earlier in the control period (refer to Statement 10). This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of slower growth in passenger numbers and the amount of revenue generated from ticket sales (passenger farebox) than the regulator expected.

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	Total AFC	Total AFV	Unit Cost	Volume	Cost	Total AFC	Total AFV	Unit Cost
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Track	Conventional plain line Renewal	km	33	26	55	74	743	27	25	37	66	561
	High Output Renewal	km	17	15	53	79	671	61	35	35	61	574
	Plain line Refurbishment	km	5	1	7	27	259	19	5	7	34	206
	S&C Renewal/Refurbishment	point ends	51	18	34	141	241	33	12	18	110	164
	Track Drainage	lm	400	1	1	400	3	1,426	1	1	1,426	1
	Fencing	km	24	2	3	33	91	9	1	1	17	59
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	-	4	5	-	-	11	2	7	21	333
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	67	158	-	-	-	81	106	-	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-	1	1	1	1	1,000
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Train Fitment	-	-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	3	10	15	5	3,000	-	-	-	-	-
	Minor Works	-	-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	10	15	-	-	-	1	1	-	-
Civils	Underbridges	m ²	1,911	8	33	5,725	6	2,648	22	74	12,427	6
	Overbridges (incl BG3)	m ²	1,050	5	5	1,268	4	405	1	1	466	2
	Major Structures	-	-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	-	-	-	-	-	-	-	-	-	-
	Culverts	m ²	87	1	3	948	3	101	-	-	101	-
	Footbridges	m ²	207	-	-	230	-	551	1	3	729	4
	Coastal & Estuarial Defences	m	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m ²	22	-	1	130	8	53	-	-	53	-
	Structures Other	-	-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	26	1	1	29	34	20	1	1	40	25
	EW Drainage	m	944	-	-	944	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	15	43	-	-	-	25	79	-	-
Buildings	Buildings (MS)	m ²	102	-	-	102	-	-	-	-	-	-
	Platforms (MS)	-	-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)	-	-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	62,208	5	8	184,434	0	146	1	2	146	14
	Buildings (FS)	m ²	756	-	-	814	-	-	-	-	-	-
	Platforms (FS)	m ²	47	-	-	47	-	-	-	-	-	-
	Canopies (FS)	m ²	11	-	-	281	-	-	-	-	-	-
	Train sheds (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m ²	45	-	-	45	-	-	-	-	-	-
	Lifts & Escalators (FS)	-	-	-	-	-	-	-	-	-	-	-
	Other (FS)	-	275	-	-	275	-	-	-	-	-	-
	Light Maintenance Depots	m ²	6,758	-	-	13,858	-	24,184	-	1	24,184	0
	Depot Plant	-	-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	6,600	-	-	6,600	-	3,500	-	-	3,500	-
	MDU Buildings	m ²	12,581	1	3	28,644	0	225	-	-	600	-
	NDS Depot	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	6	11	-	-	-	1	3	-	-

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	27	10	55	120	458	6	12	41	34	1,206
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	223	6	32	865	37	174	10	36	695	52
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	7	-	1	18	56
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	12	-	2	24	83
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	1	-	2	2	1,000
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
	Signalling Power Cables	km	-	-	-	-	-	-	-	-	-	-
	Signalling Supply Points	No.	7	1	3	8	375	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
Total			-	17	90	-	-	-	22	82	-	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	33	2	7	88	80
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	2	7	-	-

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

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – The unit cost for Conventional Plain Line Renewals has increased compared to the prior year. There was one key project (Anglia ROW) which delivered more volumes in the current year than the prior year. As this project has a unit cost much higher than all the others the effect of this was to show a worsening in the unit cost in this category. In High Output the unit cost has increased in the current year due to the Doncaster project which has similar costs to the majority of projects but did not deliver many volumes. This highlights that high output work has a large fixed apportionment due to the small amount of volumes. In Fencing there was only one project delivering volumes in the prior year so the sample size is too small to make any meaningful comparisons.
- (3) Civils – There is a large increase in the unit costs between the last two years in Earthworks. However there was only one project in each year so there is not possible to do any analysis of an average unit cost.

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

In £m 2017-18 prices unless stated

- (4) Electrical Power & Fixed Plant – There has been a decrease in the unit cost for both Wiring and Structure Renewals. However there were only three projects in these categories all of which ran over both the last two financial years. As the sample size is so small it and variance analysis would be meaningless.

Statement 1: Summary regulatory financial performance, East Midlands

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	238	241	(3)	954	951	3	240
Fixed Income	20	20	-	75	74	1	18
Variable Income	59	63	(4)	246	246	-	58
Other Single Till Income	34	30	4	118	114	4	38
Opex memorandum account	4	-	4	13	-	13	2
Total Income	355	354	1	1,406	1,385	21	356
Operating expenditure							
Network operations	27	14	(13)	109	71	(38)	27
Support costs	17	21	4	66	92	26	15
Traction electricity, industry costs and rates	30	29	(1)	107	103	(4)	27
Network maintenance	73	61	(12)	291	251	(40)	79
Schedule 4	10	10	-	41	51	10	8
Schedule 8	2	-	(2)	37	1	(36)	15
Total operating expenditure	159	135	(24)	651	569	(82)	171
Capital expenditure							
Renewals	125	149	24	582	546	(36)	146
PR13 enhancement expenditure	239	506	267	652	1,058	406	130
Non PR13 enhancement expenditure	-	-	-	13	-	(13)	5
Total capital expenditure	364	655	291	1,247	1,604	357	281
Other expenditure							
Financing costs	120	138	18	368	428	60	96
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	120	138	18	368	428	60	96
Total expenditure	643	928	285	2,266	2,601	335	548

Statement 1: Summary regulatory financial performance, East Midlands – continued

In £m 2017-18 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 in the other statements of this document.
- (2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year and the control period to date was in line with the regulatory determination. This is discussed in more detail in Statement 6a. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target with the lower electricity being the overwhelming contributor. Income is consistent with the previous year. This is set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is higher than the determination assumption mainly due to extra property income which has helped offset lower freight income. Income for the control period to date is higher than expected, mainly due to these same factors. These variances are 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 (June 2017). This year, the balance is largely due to higher Business rates. The control period to date is largely due to amounts earned under the volume incentive mechanism. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are higher than the previous year which, as noted in last year's Regulatory financial statements, benefited from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, East Midlands – continued

In £m 2017-18 prices unless stated

- (9) Operating expenditure - Traction electricity, industry costs and rates are broadly in line with the determination as lower electricity costs (offset by lower recoveries of these costs from operators through income) have been offset by higher Business rates and British Transport Police costs. Costs are higher than the previous year as a result of increased Business rates following a widely-publicised increase in business rates across the country. Traction electricity, industry costs are discussed 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. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are lower than the previous year due to reduced reactive maintenance and inspection costs. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are broadly similar to the determination as higher average costs of possessions has been alleviated by deferral of renewals activity requiring network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been offset by lower than expected renewals delivery. Costs this year are broadly in line with the previous year which reflects lower possession productivity, higher rates payable to operators and the disruptive impact of Storm Emma partly offset by reductions in renewals activities requiring possessions. Schedule 4 costs are discussed 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. However the gap is not as large as in previous years due to additional performance improvement plans and fewer externalities impacting performance. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to net deferrals of activity partially offset by higher underlying costs (notably in Track and Signalling). Expenditure in the control period to date is higher than the determination due to higher underlying costs partly mitigated by deferral of activity. Renewals are lower than the previous year with decreases across almost many categories as Network Rail seeks to invest its limited funds in the most optimal way. As the regulator expected more renewals work was undertaken in earlier years of the control period. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline with notable contributions from electrification programmes due to widely-publicised delays. The control period to date position is caused by similar factors. These variances are set out in more detail in Statement 3.
- (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 so the higher investment in the current year and the control period to date is axiomatic. These items are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, East Midlands – continued

In £m 2017-18 prices unless stated

- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the determination due to lower market rates and inflation than the regulator predicted. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, East Midlands

in £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,869	2,938	(69)
Indexation to 2016-17 prices	233	238	(5)
Opening RAB for the year (2016-17 prices)	3,102	3,176	(74)
Indexation for the year	120	123	(3)
Opening RAB (2017-18 prices)	3,222	3,299	(77)
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	118	149	(31)
PR13 enhancements	229	303	(74)
Non-PR13 enhancements	1	-	1
Total enhancements	230	303	(73)
Amortisation	(145)	(145)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2018	3,425	3,606	(181)

RAB Regulatory financial position - cumulative, East Midlands

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	2,712	2,970	3,100	3,222	2,712
Adjustments for the actual capital expenditure outturn in CP4	78	-	-	-	78
Renewals	151	138	129	118	536
PR13 enhancements	156	125	126	229	636
Non-PR13 enhancements	8	(1)	6	1	14
Total enhancements	164	124	132	230	650
Amortisation	(133)	(132)	(139)	(145)	(549)
Adjustments for under-delivery of regulatory outputs	(2)	-	-	-	(2)
Closing RAB	2,970	3,100	3,222	3,425	3,425

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

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (3) The opening RAB for the year is lower than the regulator anticipated in its' determination. This is mostly due to lower than expected investment in enhancements in the early years of the control period, notably MML Electrification, 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 efficient overspends (the value of which cannot all be logged up to the RAB) as well as re-profiling activity to the final year of the control period and beyond. 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, continuing the trend from earlier in the control period, which is mostly due to delays in the MML Electrification programme.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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.
- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

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

In £m 2017-18 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	136	118	140	149	543
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)	143	118	140	149	550
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(30)	(11)	(60)	(49)	(150)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(1)	(3)	(6)	(11)
Adjustments for efficient overspend	47	38	65	25	175
Capitalised financing on efficient overspend	1	3	5	8	17
25% retention of efficient overspend	(11)	(10)	(17)	(7)	(45)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)	(2)	(4)
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	1	-	7
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	-	-	-	(1)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	(1)	-	(1)
Other adjustments	(1)	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	151	138	129	118	536
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	-	(1)	-	-	(1)
Adjustment for 25% retention of efficient overspend	12	9	17	7	45
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	1	-	-	-	1
Total actual renewals expenditure (see statement 9)	164	146	146	125	581

Statement 2b: RAB - reconciliation of expenditure, East Midlands - continued

in £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	128	176	294	303	901
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
Baseline adjustments	-	(29)	(17)	203	157
Capitalised financing on Baseline adjustments	-	(1)	(1)	2	-
Adjustments to DfT funding	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (enhancements)	147	128	276	508	1,059
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	4	(11)	(146)	(270)	(423)
Capitalised financing on acceleration / (deferrals) of expenditure	-	-	(3)	(12)	(15)
Adjustments for efficient overspend	5	4	3	(5)	7
Capitalised financing on efficient overspend	-	-	-	-	-
25% retention of efficient overspend	(1)	(1)	(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	(4)	8	10
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	(1)	1	(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	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	1	-	-	-	1
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	156	125	126	229	636
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	9	(1)	5	-	13
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	-	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	-	1	1	2
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Other adjustments	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	8	(1)	6	1	14
Total enhancements (added to the RAB - see statement 2a)	164	124	132	230	650
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	-	-	3	9	12
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	10	47	73
Other adjustments	(1)	-	-	-	(1)
Total actual enhancement expenditure (see statement 3)	172	134	145	286	737

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

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening three years of the control period, 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 (June 2017), 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 June 2017) 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 dominated by Track projects. 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.

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

In £m 2017-18 prices unless stated

- (7) 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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, 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 first year of the control period were reversed in the second year of the control period.
- (8) 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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink).
- (9) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programme have been reprofiled into CP6 and beyond.
- (10) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), 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 June 2017) 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. This year there is a positive value, relieving some of the underperformance in previous years due to reduced programme costs on the MML Linespeed improvement project. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (11) 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.
- (12) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend recognised on the Thameslink programmes which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

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

In £m 2017-18 prices unless stated

- (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 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 3: Analysis of enhancement capital expenditure, East Midlands

in £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	2	3	1	3	4	1
Stations - Access for All (AfA)	-	1	1	1	1	-
Development	-	-	-	3	2	(1)
Level crossing safety	1	1	-	6	7	1
Passenger journey improvement	15	63	48	23	89	66
The strategic rail freight network	-	(5)	(5)	13	9	(4)
Total funds	18	63	45	49	112	63
Committed projects						
Thameslink	4	3	(1)	49	56	7
Total committed projects	4	3	(1)	49	56	7
Named schemes						
The Electric Spine:						
MML electrification	121	274	153	286	465	179
Derby station area remodelling	35	53	18	56	75	19
DfT SoFA amount	82	100	18	200	295	95
Total Electric Spine projects	238	427	189	542	835	293
HLOS capacity metric schemes						
MML long distance high speed services train lengthening	2	7	5	4	19	15
Total HLOS capacity metric schemes	2	7	5	4	19	15
CP4 project rollovers						
MML linespeed improvements	-	2	2	27	24	(3)
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	2	2	27	24	(3)
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	(1)	(1)	-	-	-
R&D allowance	-	-	-	-	1	1
Depots and stabling	2	5	3	5	11	6
Income generating property schemes	-	-	-	1	-	(1)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	(25)	-	25	(25)	-	25
Total other projects	(23)	4	27	(19)	12	31
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	239	506	267	652	1,058	406
B) Investments not included in PR13						
Government sponsored schemes						
Ilkestone New Station	-	-	-	6	-	(6)
Other government sponsored schemes	-	-	-	-	-	-
Total Government sponsored schemes	-	-	-	6	-	(6)
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	-	-	-	5	-	(5)
Discretionary Investment	-	-	-	-	-	-
Total non PR13 enhancement expenditure	-	-	-	13	-	(13)
Total Network Rail funded enhancements (see Statement 1)	239	506	267	665	1,058	393
Third Party PAYG	47	-	(47)	74	-	(74)
Total enhancements (see statement 2b)	286	506	220	739	1,058	319

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 Thameslink). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £239m (as shown in Statement 1). This comprises the total enhancement figure in the table above £286m less the PAYGO schemes funded by third parties (£47m).
- (5) Investment expenditure this year higher than the previous year as delivery of the Electric spine portfolio of programmes ramped up.
- (6) 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 review) 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. Overall, expenditure in this category this year was lower than the baseline, continuing the trend of earlier years of the control period, with the most significant contribution from the Passenger Journey Improvement fund. Noteworthy variances between expenditure in the year and the baseline are set out below:

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

In £m 2017-18 prices unless stated

- a. 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. Whilst expenditure was higher than the previous year it was significantly lower than the baseline this year and in the control period to date as work has been deferred into future control periods. Fewer schemes have been identified this control period than expected that meet the criteria for investing in the fund.
 - b. 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 in the control period to date is higher than the baseline as activity has been accelerated into earlier years of the control period.
- (7) PR13 funded schemes – Committed Projects – there is only one project in this category: Thameslink – a programme spanning many routes with the objective to increase the frequency with which services could operate on this part of the network. Expenditure in the year is consistent with the baseline but slightly lower in the control period to date. This is due to some programme deferral partly offset by higher underlying costs. The higher like-for-like costs has resulted in the financial performance, as 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).
- (8) PR13 funded schemes – named schemes - expenditure in the year is significantly less than the baseline which is mainly due to the variances arising on MML Electrification. The control period to date variance is driven by a net position across a number of projects, but with the largest single contribution coming from MML Electrification. 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. Parts of this programme have been deferred into CP6. The ambitious quantity of electrification works planned by Network Rail for CP5 has proven to be undeliverable. The reductions in the scope of the Midland Mainline Electrification in CP5 helps free up resources and funds to deliver other programmes considered be of greater benefit to passengers and taxpayers. The extension to the programme timescales have resulted in financial underperformance being recognised this control period (refer to Statement 5).
 - 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 year is lower than the baseline, which is causing the lower expenditure in the control period to date. Some parts of the programme are now expected to be delivered in the final year of the control period, but agreed regulatory milestones are still expected to be achieved.
 - 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 in the control period to date is lower than the baseline as elements of the programme have been deferred into future years. The uncertainty over the progression of the Midland Main line Electrification, which was paused whilst Network Rail undertook a full strategic review of enhancements but later restarted following DfT discussions, has had a knock-on impact on the advancement of this scheme, particularly Bedford to Kettering. Expenditure in the current year is higher than in 2016/17 now that the programme has been recommenced.

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

In £m 2017-18 prices unless stated

- (9) PR13 funded schemes – HLOS capacity metric schemes - the only programme in this category is MML long distance high speed services train lengthening - a project which will relieve overcrowding by enabling the introduction of longer trains on the MML (Midland Main Line). Minimal work was completed this year as the project has been reprofiled to later in the control period and beyond. Most of the milestones for this programme are in CP6, as agreed with the regulator and DfT. Most of the shortfall in investment in the control period to date is planned to be caught up in 2018/19.
- (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. The only programme in this category is MML Linespeed Improvements – a project which aims to increase the line speed 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 in the control period to date (refer to Statement 5a) and so not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a). As expected, expenditure in the current year was minimal as the project is substantially complete.
- (11) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a capital grant from DfT in the year which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Notable variances to the baseline include:
- a. 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 in the year is much than the baseline, continuing the trend from earlier years of the control period. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT.
 - b. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme in England & Wales, an element of which was allocated to each of the operational routes. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB (refer to Statement 2a).
- (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 2a) or recognised as financial performance (refer to Statement 5c) depends upon the terms of the individual funding arrangements although some of the baselines have been re-assessed as part of the Hendy review.

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

In £m 2017-18 prices unless stated

- a. Government sponsored – the main project this control period was the delivery of a new station at Ilkeston. There was minimal investment in this category this year.
- b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.
- c. PAYGO – as noted above, expenditure this year includes an adjustment for a cash contribution made received from DfT towards the England & Wales portfolio. This was the main reason for the increase in the level of expenditure in this category this year compared to the previous year.

Statement 4: Net debt and financial ratios, East Midlands

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	2,256	2,353	97	1,702	1,666	(36)
Income						
Grant income	(238)	(241)	(3)	(915)	(913)	2
Fixed charges	(20)	(20)	-	(73)	(72)	1
Variable charges	(59)	(63)	(4)	(236)	(235)	1
Other single till income	(34)	(30)	4	(115)	(114)	1
Total income	(351)	(354)	(3)	(1,339)	(1,334)	5
Expenditure						
Network operations	27	14	(13)	103	67	(36)
Support costs	17	21	4	65	87	22
Traction electricity, industry costs and rates	30	29	(1)	107	98	(9)
Network maintenance	73	61	(12)	278	240	(38)
Schedule 4	10	10	-	38	49	11
Schedule 8	2	-	(2)	35	-	(35)
Renewals	125	149	24	558	523	(35)
PR13 enhancement	239	303	64	629	870	241
Non-PR13 enhancement	-	-	-	12	-	(12)
Total expenditure	523	587	64	1,825	1,934	109
Financing						
Interest expenditure on nominal debt - FIM covered	18	47	29	83	141	58
Interest expenditure on index linked debt - FIM covered	13	18	5	50	61	11
Expenditure on the FIM	14	30	16	65	97	32
Interest expenditure on government borrowing	40	-	(40)	80	-	(80)
Interest on cash balances held by Network Rail	-	(1)	(1)	(1)	(5)	(4)
Total interest costs	85	94	9	277	294	17
Accretion on index linked debt - FIM covered	35	44	9	82	134	52
Total financing costs	120	138	18	359	428	69
Corporation tax	-	-	-	-	-	-
Other	78	-	(78)	79	29	(50)
Movement in net debt	370	371	1	924	1,057	133
Closing net debt	2,626	2,724	98	2,626	2,723	97

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	0.69	0.84	0.63	0.55	0.79
FFO/interest	2.95	2.94	2.65	2.25	2.35
Net debt/RAB (gearing)	70.0%	70.7%	72.7%	76.6%	75.5%
FFO/debt	8.6%	8.6%	7.9%	7.3%	8.0%
RCF/debt	5.4%	5.6%	4.8%	4.1%	4.6%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	n/a

Statement 4: Net debt and financial ratios, East Midlands – continued

In £m nominal unless otherwise stated

Note:

- (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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. 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) Network Rail's debt attributable to East Midlands has increased by £0.4bn this 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) Net debt attributable to East Midlands at 31 March 2018 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 higher performance regime costs and net operating costs have been more than offset by slower enhancement delivery and interest savings.
- (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 other 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 as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, East Midlands – continued

In £m nominal unless otherwise stated

(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 made 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 year. This is largely due to lower interest rates charged on the DfT loan facility compared to the regulatory expectation of the rates Network Rail would have to pay to borrow from the market. Actual market rates (as reflected in the DfT charges) have been much lower than the regulator assumed as macro-economic factors have caused the Bank of England to keep base rates at historically low levels. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are marginally higher than the previous year which, ceteris paribus, is expected as the interest expense on index-linked debt in the previous year is added to the principle for future years and there are no scheduled repayments of this type of debt in the current control period. Additionally, RPI this year has been higher than the previous year, thus increasing the interest expense recognised in 2017/18.

Statement 4: Net debt and financial ratios, East Midlands – continued

In £m nominal unless otherwise stated

- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the assumption in the CP5 determination. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) which offsets higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of funding made available during the course of construction on enhancement projects.

Statement 4: Net debt and financial ratios, East Midlands – continued

In £m nominal unless otherwise stated

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

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail should not be able to achieve a result of 1, meaning that any emerging 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 Network operations and Maintenance costs partly offset by savings in Support costs as described elsewhere in these accounts. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are more than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

Statement 4: Net debt and financial ratios, East Midlands – continued

In £m nominal unless otherwise stated

- (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 2017/18 is higher than the regulatory comparative which is mainly due to efficient capital overspend and higher net operational costs partly offset by interest savings. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected.
- (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 adverse variance to the regulator’s assumption is due to higher operating costs than planned, notably Maintenance and Network operations. This is partly offset by lower debt than the regulator assumed. The decline in the ratio this 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 and Network Operations, which get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, East Midlands

in £m 2017-18 prices unless stated

2017-18

	Actual	Adjusted PR13	Variance to adjusted PR13 Favourable / (Adverse)	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance $G = C - D - E - F$	Financial out / (under) performance $H = G \text{ or } H = G \times 25\%$
	A	B	C		D	E	F		
Income									
Grant Income	238	241	(3)	-	(3)	-	-	-	-
Fixed Income	20	20	-	-	-	-	-	-	-
Variable Income	49	50	(1)	-	-	-	-	(1)	(1)
Other Single Till Income	34	30	4	-	-	-	-	4	4
Opex memorandum account	4	-	4	-	4	-	-	-	-
Total Income	345	341	4	-	1	-	-	3	3
Expenditure									
Network operations	27	14	(13)	-	-	-	-	(13)	(13)
Support costs	17	21	4	-	-	-	-	4	4
Industry costs and rates	21	15	(6)	-	(5)	-	-	(1)	(1)
Traction electricity	(1)	-	1	-	-	-	-	1	1
Reporter's fees	-	1	1	-	-	1	-	-	-
Network maintenance	73	61	(12)	-	-	(4)	-	(8)	(8)
Schedule 4 costs	10	10	-	-	-	2	-	(2)	(2)
Schedule 8 costs	2	-	(2)	-	-	-	-	(2)	(2)
Renewals	125	149	24	-	-	49	-	(25)	(7)
PR13 Enhancements	239	506	267	-	-	270	-	(3)	-
Non PR13 Enhancements	-	-	-	-	-	-	-	-	-
Financing Costs	120	138	18	-	18	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-	-
Total Expenditure	633	915	282	-	13	318	-	(49)	(28)
Total:			286	-	14	318	-	(46)	(25)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters									(25)
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 milestones for asset management - data quality									-
Missed milestones for Offering Rail Better Information Services (ORBIS)									-
Missed Enhancement milestones									-
Total adjustment for under-delivery outputs									-
Total financial out / (under) performance to be recognised									(25)

Statement 5a: Total financial performance, East Midlands - continued

in £m 2017-18 prices unless stated

	Cumulative								
	Actual	Adjusted PR13	Variance to adjusted PR13 C Favourable / (Adverse)	Due to:	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 $H = G \text{ or } H = G \times 25\%$
A	B	C							
Income									
Grant Income	954	951	3	-	3	-	-	-	-
Fixed Income	75	74	1	-	1	-	-	-	-
Variable Income	210	203	7	-	-	-	-	7	7
Other Single Till Income	118	114	4	-	-	-	-	4	4
Opex memorandum account	13	-	13	-	7	-	-	6	6
Total Income	1,370	1,342	28	-	11	-	-	17	17
Expenditure									
Network operations	109	71	(38)	-	-	-	-	(38)	(38)
Support costs	66	92	26	-	1	-	-	25	25
Industry costs and rates	70	59	(11)	-	(8)	-	-	(3)	(3)
Traction electricity	1	-	(1)	-	-	-	-	(1)	(1)
Reporter's fees	-	1	1	-	-	1	-	-	-
Network maintenance	291	251	(40)	-	-	(8)	-	(32)	(32)
Schedule 4 costs	41	51	10	-	-	2	-	8	8
Schedule 8 costs	37	1	(36)	-	-	-	-	(36)	(36)
Renewals	582	546	(36)	-	-	137	-	(173)	(44)
PR13 Enhancements	652	1,058	406	-	-	421	-	(15)	(3)
Non PR13 Enhancements	13	-	(13)	-	-	(13)	-	-	-
Financing Costs	368	428	60	-	60	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-	-
Total Expenditure	2,230	2,558	328	-	53	540	-	(265)	(124)
Total:			356		64	540	-	(248)	(107)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments									(107)
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)									(5)
Missed milestones for asset management - data quality									-
Missed milestones for Offering Rail Better Information Services (ORBIS)									(3)
Missed Enhancement milestones									(2)
Total adjustment for under-delivery outputs									(22)
Total financial out / (under) performance to be recognised									(129)

	2017-18				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	(10)	(13)	-	3	(36)	(43)	-	7
Total variance not included in total	(10)	(13)	-	3	(36)	(43)	-	7
Breakdown of variance not included in total financial performance - Support costs:								
Spend to save adjustment	-	-	-	-	-	-	-	-
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	10	13	-	(3)	36	43	-	(7)
Total variance not included in total	10	13	-	(3)	36	43	-	(7)

Statement 5a: Total financial performance, East Midlands – continued

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 assess 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 in the control period to date 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.

Statement 5a: Total financial performance, East Midlands – continued

In £m 2017-18 prices unless stated

- (3) Variable income – across the control period to date, Network Rail has achieved marginal outperformance mostly as a result of increased capacity charges as Network Rail supplied additional train paths in response to customer demand. In the current year, financial underperformance has been recognised as growth has been unable to keep up with increases in regulatory targets. 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. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – this year, financial outperformance has been reported which is mainly due to additional property sales which has helped offset lower freight income.. The favourable performance in the control period to date is largely driven by the same factors as well as extra rental income from Network Rail's commercial estate. Other single till income is set out in more detail in Statement 6a.
- (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 and in the control period to date. Financial performance in this area is neutral in the current year but favourable in the control period to date as extra passenger demand has resulted in increased passenger numbers and revenue. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

Statement 5a: Total financial performance, East Midlands – continued

In £m 2017-18 prices unless stated

- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business, continuing the trend of earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D.
- (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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at major transport hubs elsewhere on the network (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year negates some of the underperformance reported earlier in the control period.
- (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.

Statement 5a: Total financial performance, East Midlands – continued

In £m 2017-18 prices unless stated

- (11) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs this year are broadly in line with the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are lower than the regulatory assumption which is mostly due to financial outperformance achieved through maintaining a tight control on late changes to the possessions timetable which also helps minimize passenger disruption. The route management team have placed importance on not making late changes to the agreed possession schedule. Possession plans have been put in place as early as possible to gain maximum discount through enhanced planning of renewals workbanks.
- (13) Schedule 8 costs – re broadly in line with the determination this year which represents a significant improvement on earlier years of the control period. This year extra investment and attention has been given to asset performance which has reaped benefits. In addition, there were fewer external events which effected performance. Costs are lower than 2016/17 which was adversely impacted by externalities, such as damage to overhead line electrification equipment (Luton) and damage to a bridge following engineering work (Barrow on Soar).

Statement 5a: Total financial performance, East Midlands – continued

In £m 2017-18 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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b.
- (15) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with the largest contribution this year from Thameslink following anticipated programme increases. The control period to date position is largely driven by Thameslink and MML electrification. Individual programme variances are 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). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (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 levels of average net debt during the year compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.

Statement 5a: Total financial performance, East Midlands – continued

In £m 2017-18 prices unless stated

- (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 achieved in 2017/18, but not in earlier years 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 achieved in 2017/18 but not in earlier years 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.
- (4) Missed enhancement milestones – in line with the regulator's rules 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 there have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.

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

in £m 2017-18 prices unless stated

2017-18								
	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)	21	(24)	(6)		(6)	-	-
Signalling	4	4	-	-		-	-	-
Civils	12	12	-	-		-	-	-
Buildings	1	1	-	-		-	-	-
Electrical power and fixed plant	(5)	(5)	-	-		-	-	-
Telecoms	1	1	-	-		-	-	-
Wheeled plant and machinery	4	4	-	-		-	-	-
IT	(2)	(2)	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	12	13	(1)	(1)		(1)	-	-
Total	24	49	(25)	(7)		(7)	-	-

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	(95)	17	(112)	(28)		(26)	(2)	-
Signalling	36	72	(36)	(9)		(10)	1	-
Civils	14	30	(16)	(4)		(4)	-	-
Buildings	10	10	-	-		-	-	-
Electrical power and fixed plant	1	5	(4)	(1)		-	(1)	-
Telecoms	4	4	-	-		-	-	-
Wheeled plant and machinery	11	11	-	-		-	-	-
IT	(9)	(9)	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	(8)	(3)	(5)	(2)		(1)	(1)	-
Total	(36)	137	(173)	(44)		(41)	(3)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

- (1) Negative financial performance has been recognised in the current year is dominated by Track. Financial underperformance for the control period has been reported across a number of asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

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

In £m 2017-18 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Nearly one-third of this was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The practical deliveries of using High Output delivery methods resulted in East Midlands electing not to use this delivery method in 2017/18. However, there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which all contributed to the financial underperformance this year. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – whilst no financial underperformance has been reported this year there has been financial underperformance in the control period to date mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, such as East Nottingham where issues with new technology and contractor claims both contributed to escalated costs. 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.

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

In £m 2017-18 prices unless stated

- (4) Civils – a whilst no financial underperformance has been reported this year there has been financial underperformance in the control period to date mainly as a result of not being able to achieve the regulator's efficiency targets. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost.
- (5) Other – this is made up of a number of different categories including the following:
- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
 - b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.
 - c. CP4 rollover: 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. The underperformance recognised in the control period to date is mainly due to FTN.

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

in £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
MML electrification	153	156	-	(3)	(1)
MML linespeed improvements	2	(4)	-	6	2
Thameslink	(1)	7	-	(8)	(1)
Seven day railway	-	-	-	-	-
Other Enhancements	113	111	-	2	-
Total	267	270	-	(3)	-

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
MML electrification	179	186	-	(7)	(2)
MML linespeed improvements	(3)	(1)	-	(2)	-
Thameslink	7	16	-	(9)	(1)
Seven day railway	-	-	-	-	-
Other Enhancements	210	207	-	3	-
Total	393	408	-	(15)	(3)

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

In £m 2017-18 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 and so 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 their 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 incoming 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). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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 expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. 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 overspend. The size and complex nature of this programme means that there are a number of risks which need to be successfully managed to deliver the remainder of the programme within the latest forecast.
- (2) MML Linespeed improvements – some minor underperformance has been recognised in the control period to date as total programme costs are now expected to be slightly higher than the Hendy review assumed.

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

In £m 2017-18 prices unless stated

- (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. In addition, minor financial performance variances are captured through this heading.

Statement 5d: Total financial performance - REBS Performance, East Midlands

in £m 2017-18 prices unless stated

	A	B	C	D	E	F	G
				Cumulative to 2016-17			
	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	55	60	(5)	-	-	-	(5)
Capacity charge	114	110	4	-	-	-	4
Electricity asset utilisation charge	4	2	2	-	-	-	2
Property income	16	9	7	-	-	-	7
Expenditure							
Network operations	109	68	(41)	-	-	-	(41)
Support costs	66	89	23	-	1	-	22
RSSB and BT Police	21	18	(3)	-	-	-	(3)
Network maintenance	291	260	(31)	(4)	-	-	(27)
Schedule 4 costs	41	55	14	6	-	-	8
Schedule 8 costs	37	-	(37)	-	-	-	(37)
Renewals	582	555	(27)	146	-	(129)	(44)
Total REBS performance			(94)	148	1	(129)	(114)
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)							(5)
Missed milestones for asset management - data quality							-
Missed ORBIS milestones							(3)
Total adjustment for under delivery of outputs and reduced sustainability							(20)
Cumulative performance to end of 2017-18							(134)
Less cumulative outperformance recognised up to the end of 2016-17							(109)
Net REBS performance for 2017-18							(25)

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 2017-18 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	238	241	(3)	954	951	3	240
Franchised track access income							
Fixed charges	20	20	-	75	74	1	18
Variable charges							
Variable usage charge	10	11	(1)	42	41	1	10
Traction electricity charges	10	13	(3)	36	43	(7)	8
Electrification asset usage charge	1	1	-	4	2	2	1
Capacity charge	28	28	-	113	109	4	28
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	10	10	-	51	51	-	11
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	59	63	(4)	246	246	-	58
Total franchised track access income	79	83	(4)	321	320	1	76
Total franchised track access and grant income	317	324	(7)	1,275	1,271	4	316
Other single till income							
Property income	7	2	5	18	7	11	6
Freight income	3	6	(3)	15	23	(8)	4
Open access income	-	-	-	-	-	-	-
Stations income	8	9	(1)	34	38	(4)	8
Facility and financing charges	11	10	1	36	34	2	15
Depots Income	5	3	2	15	11	4	5
Other income	-	-	-	-	1	(1)	-
Total other single till income	34	30	4	118	114	4	38
Total income	351	354	(3)	1,393	1,385	8	354

Statement 6a: Analysis of income, East Midlands – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is slightly lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower government grants (arising from lower inflation) and lower freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned from property and from offering additional services to operators. Income for the control period to date is higher than the regulatory target as lower traction electricity income and freight revenue (for the reasons noted above) have been more than offset by extra property income and additional services offered to operations. Income is marginally lower than the previous year which benefitted from non-recurring facility fee income.

Statement 6a: Analysis of income, East Midlands – continued

In £m 2017-18 prices unless stated

- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only 10.96 per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table. Grant income is slightly lower than the previous year which is in line with the regulator's expectation in the PR13, with more income instead coming directly from operators through Fixed charges.

- (4) Fixed charges – fixed charge income was broadly in line with the determination this year and the control period to date. Income is higher than last year due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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). Income was higher than the previous year reflecting higher market prices but was largely offset by increased costs payable by Network Rail for electricity (refer to Statement 7a). As market prices have been lower than the regulator assumed in each of the last four years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (6) Property income – this is favourable to the determination target this year due to additional property sales. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway. Income in the control period to date is ahead of the regulatory target, due to additional rental income earned earlier in the control period as well as the extra sales made in the current year.

Statement 6a: Analysis of income, East Midlands – continued

In £m 2017-18 prices unless stated

- (7) Freight Income – this is well below the regulator’s determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. Overall, the tonnage of materials moved by freight has significantly decreased since the last year of CP4. The structural changes facing the freight market over the past four years has driven the adverse performance to the regulator’s assumption for the lower control period to date.
- (8) Facility and financing charges – income in this category is in line with the determination in both the current year and the control period to date. The reduction compared to the prior year is due to one-off amounts being received in 2016/17 once contracts were agreed and the revenue calculations back-dated.

Statement 6b: Analysis of other single till income, East Midlands

in £m 2017-18 prices unless stated

	2017-18			Cumulative			2016-17
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Property Income							
Property rental	3	3	-	14	11	3	6
Property sales	4	-	4	4	1	3	-
Adjustment for commercial opex	-	(1)	1	-	(5)	5	-
Total property income	7	2	5	18	7	11	6
Freight income							
Freight variable usage charge	3	5	(2)	13	20	(7)	3
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	1	(1)	1	1	-	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	1	-	1	1
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	3	6	(3)	15	23	(8)	4
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	-	-	-	-	2	(2)	-
Qualifying expenditure	-	1	(1)	1	5	(4)	-
Total managed stations income	-	1	(1)	1	7	(6)	-
Franchised stations income							
Long term charge	4	4	-	16	15	1	4
Stations lease income	4	4	-	17	16	1	4
Total franchised stations income	8	8	-	33	31	2	8
Total stations income	8	9	(1)	34	38	(4)	8
Facility and financing charges							
Facility charges	11	10	1	36	34	2	15
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	11	10	1	36	34	2	15
Depots income	5	3	2	15	11	4	5
Other	-	-	-	-	1	(1)	-
Total other single till income	34	30	4	118	114	4	38

Statement 6b: Analysis of other single till income (unaudited), East Midlands – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	17	7	(10)	70	37	(33)	17
Signalling shift managers	-	1	1	3	2	(1)	-
Local operations managers	1	1	-	4	3	(1)	1
Controllers	2	1	(1)	7	5	(2)	2
Electrical control room operators	-	-	-	-	2	2	-
Total signaller expenditure	20	10	(10)	84	49	(35)	20
Non-signaller expenditure							
Mobile operations managers	-	1	1	-	6	6	-
Managed stations	-	1	1	-	6	6	-
Performance	-	1	1	1	2	1	1
Customer relationship executives	1	-	(1)	2	1	(1)	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	3	3	-
Other	3	-	(3)	12	2	(10)	3
Operations delivery	2	-	(2)	6	-	(6)	2
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	2	1	(1)	6	5	(1)	2
Other operating income	(1)	(1)	-	(2)	(3)	(1)	(1)
Total non-signaller expenditure	7	4	(3)	25	22	(3)	7
Total network operations expenditure	27	14	(13)	109	71	(38)	27
Support costs							
Core support costs							
Human resources	1	3	2	5	12	7	1
Information management	3	3	-	13	13	-	3
Government and corporate affairs	-	1	1	1	4	3	-
Group strategy	1	1	-	4	5	1	1
Finance	1	1	-	4	6	2	3
Business services	1	1	-	4	3	(1)	1
Accommodation	3	1	(2)	10	3	(7)	3
Utilities	2	3	1	8	10	2	2
Insurance	2	3	1	8	11	3	-
Legal and inquiry	1	-	(1)	1	1	-	-
Safety and sustainable development	1	-	(1)	4	2	(2)	1
Strategic sourcing	-	-	-	-	2	2	(1)
Business change	-	-	-	1	1	-	-
Other corporate functions	(1)	-	1	(1)	1	2	-
Core support costs	15	17	2	62	74	12	14
Other support costs							
Asset management services	2	2	-	9	11	2	2
Network Rail telecoms	2	2	-	8	8	-	1
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(1)	-	1	(5)	-	5	(1)
Commercial property	-	-	-	(1)	-	1	-
Group costs	(1)	-	1	(7)	(2)	5	(1)
Total other support costs	2	4	2	4	18	14	1
Total support costs	17	21	4	66	92	26	15
Traction electricity, industry costs and rates							
Traction electricity	9	13	4	37	43	6	8
Business rates	13	10	(3)	41	37	(4)	11
British transport police costs	5	4	(1)	20	16	(4)	5
RSSB costs	-	-	-	1	2	1	-
ORR licence fee and railway safety levy	2	1	(1)	7	4	(3)	2
Reporters fees	-	1	1	-	1	1	1
Other industry costs	1	-	(1)	1	-	(1)	-
Total traction electricity, industry costs and rates	30	29	(1)	107	103	(4)	27
Total network operations expenditure, support costs, traction electricity, industry costs and rates	74	64	(10)	282	266	(16)	69

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are slightly higher than the determination assumed this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised, partly offset by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a) and lower costs in central functions.
- (3) 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.
- (4) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are in line with the previous year.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.

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

In £m 2017-18 prices unless stated

- (6) 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (7) Government and corporate affairs – costs are lower than the determination in the control period to date. The variance arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). Costs this year are broadly in line with the previous year as many of the transfers of responsibilities were in place for 2016/17.
- (8) Finance – costs were lower than the determination in the control period to date. This is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination.
- (9) Insurance - costs are favourable to the determination this year and the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (10) Safety and sustainable development - costs are much higher than the determination in the control period to date due to enhanced focus on safety. 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 this area. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.

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

In £m 2017-18 prices unless stated

- (11) Asset Management Services – costs were lower than the determination in the control period to date 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.
- (12) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (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 in the control period to date mainly due to lower performance related payments to staff, re-organisation costs in the current year being less than the regulator expected and reductions in an ORR financial penalty in 2014/15. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. The credit recognised in Group this year is in line with the previous year.
- (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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is broadly in line with the regulator’s assumption in the current year as lower traction electricity costs have been offset by extra British Transport Police costs and higher Business rates. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media.
- (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 6a and Statement 6b). Control period to date costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are broadly in line with the previous year.

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

In £m 2017-18 prices unless stated

- (16) 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 through the Opex memorandum account mechanism (refer to Statement 10). Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency. As a result, Network Rail expects costs to exceed the regulatory assumption for the final year of the control period too.
- (17) British Transport Police costs - expenses in the year are higher than the determination assumed. 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. This year's costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs in other routes. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year are in line with the previous year.

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

in £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	15	16	12	12	13
MOMS	1	-	-	-	-
Control	2	1	1	1	1
Planning & Performance Staff Costs	2	-	-	-	-
Managed Stations Staff Costs	1	-	-	1	-
Operations Management Staff Costs	1	-	-	-	-
Other	6	8	14	13	13
Total operations & customer services costs	28	25	27	27	27
Total Network Operations	28	25	27	27	27
Support					
Human resources					
Functional support	3	2	2	1	1
Training (inc Westwood)	1	-	-	-	-
Graduates	-	-	-	-	-
Apprenticeships	-	-	-	-	-
Other	-	-	-	-	-
Total human resources	4	2	2	1	1
Information management					
Support	-	-	-	-	-
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	3	4	3	3	3
Other	-	-	-	-	-
Total information management	3	4	3	3	3
Finance	1	1	1	3	1
Business Change	-	-	-	-	-
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	-	-	(1)	-
Planning & development	1	1	1	1	1
Safety & compliance	1	-	-	-	-
Other corporate services	3	1	-	-	(5)
Commercial property	6	1	3	3	3
Infrastructure Projects	(3)	(1)	(1)	(1)	(1)
Route Services	1	-	-	-	4
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	10	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	2	2	2	2
Network Rail Telecoms	-	5	2	1	2
Digital Railway	-	1	1	1	1
Safety Technical & Engineering	-	2	3	2	2
Government & Corporate Affairs	-	1	-	-	-
Business Services	-	1	1	1	1
Route Asset Management	-	(1)	-	-	-
Legal and inquiry	-	-	-	-	1
Group/central					
Pensions	-	-	-	-	-
Insurance	2	3	3	-	2
Redundancy/reorganisation costs	4	1	-	1	-
Staff incentives/Bonus Reduction	-	(1)	-	-	-
Accommodation & Support Recharges	-	(2)	(1)	(1)	(1)
Commercial claims settlements	-	-	-	-	-
ORR financial penalty	4	(1)	-	-	-
Other	-	-	(1)	(1)	-
Total group/central costs	10	-	1	(1)	1
Total support	37	20	19	15	17
Total network operations and support costs	65	45	46	42	44

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), East Midlands – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 8a: Summary analysis of network maintenance expenditure, East Midlands

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	27	23	(4)	105	99	(6)	27
Signalling	8	8	-	40	33	(7)	10
Civils	16	7	(9)	47	28	(19)	19
Buildings	4	2	(2)	14	8	(6)	5
Electrical power and fixed plant	3	6	3	14	20	6	3
Telecoms	1	1	-	6	3	(3)	1
Other network operations	6	10	4	35	44	9	6
Asset management services	10	2	(8)	33	8	(25)	10
National Delivery Service	(1)	3	4	(2)	11	13	(1)
Property	-	-	-	3	1	(2)	-
Group	(1)	(1)	-	(4)	(4)	-	(1)
Total maintenance expenditure	73	61	(12)	291	251	(40)	79

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

In £m 2017-18 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 control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are lower than the previous year due to lower reactive maintenance and inspection costs. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but 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 base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date.

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

In £m 2017-18 prices unless stated

- (3) Signalling – costs were in line with the determination this year but remain higher for the control period to date. One of the contributing factors to this variance has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation were granted to front line workers earlier in the control period. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives.
- (4) Civils – costs were higher than the determination mainly as a result of extra civils inspection costs but also due to extra reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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. For asset inspections costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. The reductions in costs compared to the previous year are also due to a combination of reduced reactive maintenance and inspection costs, which, as noted in the previous year's Regulatory Financial Statements was impacted by contractor disputes.

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

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, continuing the trend from earlier years of the control period. Variances in this category 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 – some efficiencies have been made in this category, continuing the trend of the earlier years of the control period. In addition, certain responsibilities have been moved to Asset management services, which helps explain the overspend in that category. Costs are in line with the previous year.
- (7) Other network operations – costs for the current year are lower than the regulator's expectation which is mostly due to a transfer of activity from this category to Asset management services. This has also helped reduce the control period to date variance. For the control period to date also includes extra costs incurred earlier in the control period for extra safety and performance improvement. 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 re-invest these funds in improving the safety and performance of the network. There was significant investment on programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are in line with the previous year.
- (8) Asset management services – costs are higher than the regulator's assumption this year and the control period to date. This is due a multitude of factors including: transfer of responsibilities from Electrical power and fixed plant, additional activity undertaken by the routes to understand and manage the assets in their area and additional expenditure on specialist contractors and consultants. Costs are in line than the previous year.
- (9) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.

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

In £m 2017-18 prices unless stated

- (10) 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).

Statement 9a: Summary analysis of renewals expenditure, East Midlands

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	52	49	(3)	279	184	(95)	66
Signalling	34	38	4	104	140	36	23
Civils	16	28	12	92	106	14	32
Buildings	1	2	1	12	22	10	3
Electrical power and fixed plant	9	4	(5)	19	20	1	5
Telecoms	1	2	1	8	12	4	2
Wheeled plant and machinery	3	7	4	18	29	11	3
Information Technology	6	4	(2)	28	19	(9)	7
Property	-	-	-	1	1	-	-
Other renewals	3	15	12	21	13	(8)	5
Total renewals expenditure	125	149	24	582	546	(36)	146

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

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially than offset by higher underlying costs (notably in Track and Signalling). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Investment is lower than the previous year with decreases across many asset categories as Network Rail seeks to invest its limited funds in the most optimal way, which has included deferring activities to the final year of the control period and with greater resources redirected to Schedule 8 and maintenance and operations activities to compensate for lower than expected improvements.
- (2) Track – costs are slightly higher than the regulator assumed due to a combination of net deferrals of activity which have been more than offset by higher underlying costs, continuing the pattern of the control period to date. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan for some categories, such as High Output but better for others, such as Conventional Plain Line, with S&C broadly in line. However, these volumes have come at a much higher cost than planned. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered. This was most evident in High Output where concerns over the productivity led to no such volumes being delivered this year.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure in the year was broadly in line with the determination expectation, but this was caused by a delay in some projects offset by higher underlying costs. Control period to date costs are lower than the regulatory assumption as schemes have been postponed to future control periods, partly offset by higher like-for-like costs. 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 and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. The determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. This year included additional works on the Derby remodelling project, partly offset by lower investment on East Nottingham Modular resignalling as the bulk of this project was delivered by the end of 2016/17.
- (4) Civils – expenditure in the year was lower than the regulator anticipated as some projects, notably underbridges, were deferred into future years. Expenditure in the control period to date is lower than the regulator assumed which is due to deferral of activity into future control periods, partly offset by higher underlying costs. Efficiencies assumed by the regulator have proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised in this control period (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 (June 2017) 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). Higher costs have also been caused by externalities, such as damage to the network caused by weather or other events, such as the bridge collapse at Barrow-on-Soar. Spend is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period.
- (5) Buildings – minimal activity was delivered this year expenditure, continuing the trend for the control period to date. A higher proportion of minor works have been undertaken this control period and so have been classified as Buildings maintenance (and so included in Statement 8a) rather than renewals. The distinction between renewal and maintenance is set out in detail in Network Rail's cost and volume reporting policies.

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

In £m 2017-18 prices unless stated

- (6) Electrical power and fixed plant – costs in the current year were higher than the regulatory expectation as projects deferred earlier in the control period were caught up this year. The control period to date expenditure is now in line with the determination assumption. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. 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 scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. Consequently, Electrical power and fixed plant financial underperformance has been recognised this control period (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 (June 2017) 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). Renewals costs were higher than the previous year as some extra Overhead line projects were delivered.
- (7) Telecoms – expenditure in the control period to date is was lower than the determination although some of this underspend is expected to be caught up in the remaining year of the control period as further programmes are designed and delivered. The largest contributor to the underspend is in SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6.
- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5).

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

In £m 2017-18 prices unless stated

(9) Information technology – investment in the year is higher than the determination assumed continuing the trend of the control period to date. This extra expenditure was anticipated by the ORR who created a “spend to save” framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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.

(10) Other renewals includes the following notable items:

- a. Intelligent infrastructure – expenditure is lower than the regulator assumed in the control period to date. There have been some delays with the programme which has caused a re-profiling of expenditure into the future. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- b. Faster isolations – expenditure in the control period to date has been minimal. This is expected to continue into the final year of CP5 as the work has been postponed to future control periods.
- 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 with variances in the control period to date being reversed in the final year of the control period. 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 the previous control period (CP4), 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. As expected, investment is lower in the current year compared to the previous year as the schemes that were rolled over from CP4 are now completed.

Statement 9b: Detailed analysis of renewals expenditure, East Midlands

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	19	10	(9)	81	49	(32)
High output renewal	9	11	2	81	49	(32)
Plain line refurbishment	2	1	(1)	10	4	(6)
S&C renewal	4	12	8	50	44	(6)
S&C refurbishment	2	2	-	15	8	(7)
Track non-volume	14	10	(4)	23	17	(6)
Off track	2	3	1	19	13	(6)
Total track	52	49	(3)	279	184	(95)
Signalling						
Full conventional resignalling	21	-	(21)	28	1	(27)
Modular resignalling	11	1	(10)	30	16	(14)
ERTMS resignalling	-	1	1	-	1	1
Partial conventional resignalling	(7)	15	22	12	48	36
Targeted component renewal	-	2	2	1	4	3
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	3	2	(1)	7	8	1
Level crossings	1	11	10	6	33	27
Minor works	4	4	-	17	19	2
Centrally managed costs	1	2	1	3	10	7
Other	-	-	-	-	-	-
Total signalling	34	38	4	104	140	36
Civils						
Underbridges	5	15	10	40	52	12
Overbridges	2	1	(1)	19	8	(11)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	3	-	(3)
Tunnels	2	4	2	9	10	1
Other assets	3	1	(2)	10	6	(4)
Structures other	-	2	2	(1)	10	11
Earthworks	4	5	1	11	20	9
Other	-	-	-	1	-	(1)
Total civils	16	28	12	92	106	14
Buildings						
Managed stations	-	-	-	-	3	3
Franchised stations	-	1	1	6	12	6
Light maint depots	1	-	(1)	2	2	-
Depot plant	-	-	-	-	2	2
Lineside buildings	-	-	-	1	1	-
MDU buildings	-	1	1	3	2	(1)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	1	2	1	12	22	10

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

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	4	1	(3)	9	6	(3)
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	1	1
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	1	-	1	5	4
Fixed plant	4	2	(2)	9	8	(1)
Total electrical power and plant	9	4	(5)	19	20	1
Telecoms						
Operational communications	-	-	-	-	-	-
Network	-	1	1	-	1	1
SISS	-	-	-	1	5	4
Projects and other	-	1	1	-	2	2
Non-route capital expenditure	1	-	(1)	7	4	(3)
Total telecoms	1	2	1	8	12	4
Wheeled plant and machinery						
High output	-	1	1	5	7	2
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	-	-	-	1	1
Intervention	2	2	-	4	7	3
Materials delivery	-	-	-	4	1	(3)
On track plant	1	1	-	2	4	2
Seasonal	-	1	1	-	2	2
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	1	1
Road vehicles	-	2	2	2	5	3
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	3	7	4	18	29	11
Information Technology						
IM delivered renewals	6	4	(2)	25	17	(8)
Traffic management	-	-	-	3	2	(1)
Total information technology	6	4	(2)	28	19	(9)
Property						
MDUs/offices	-	-	-	1	1	-
Commercial estate	-	-	-	-	-	-
Corporate services	-	-	-	-	-	-
Total property	-	-	-	1	1	-
Other renewals						
Asset information strategy	1	2	1	9	10	1
Intelligent infrastructure	-	1	1	1	4	3
Faster isolations	-	2	2	-	8	8
LOWS	1	-	(1)	1	-	(1)
Small plant	-	-	-	-	3	3
Research and development	-	-	-	-	-	-
Phasing overlay	-	10	10	-	(12)	(12)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	8	-	(8)
Other	1	-	(1)	2	-	(2)
West Coast	-	-	-	-	-	-
Total other renewals	3	15	12	21	13	(8)
Total renewals	125	149	24	582	546	(36)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), East Midlands – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 10: Other information, East Midlands

in £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	10	10	-	41	51	10	8
Access charge supplement Income	(10)	(10)	-	(52)	(51)	1	(11)
Net (income)/cost	-	-	-	(11)	-	11	(3)
Schedule 8							
Performance element income	(4)	-	4	(5)	-	5	-
Performance element costs	6	-	(6)	42	1	(41)	15
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	2	-	(2)	37	1	(36)	15

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	-	6	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	3	4	1
RSSB Costs	-	-	(1)
ORR licence fee and railway safety levy	1	3	1
Reporters fees	(1)	(1)	-
Other industry costs	1	1	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	4	13	2

Statement 10: Other information, East Midlands – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are broadly in line with the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance. As the level of renewals activity decreased by more than the decrease in Schedule 4 costs financial underperformance has been recognised this year (refer to Statement 5a). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are lower than the regulatory assumption which is mostly due to financial outperformance (refer to Statement 5a) achieved through maintaining a tight control on late changes to the possessions timetable which also helps minimize passenger disruption. Costs this year included the impact of Storm Emma in February which resulted in number of services being cancelled in light of the snow.

Statement 10: Other information, East Midlands – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are broadly in line with the determination this year which represents a significant improvement on earlier years of the control period. This year extra investment and attention has been given to asset performance which has reaped benefits. In addition, there were fewer external events which effected performance. Costs are lower than 2016/17 which was adversely impacted by externalities, such as damage to overhead line electrification equipment (Luton) and damage to a bridge following engineering work (Barrow on Soar).
- (3) The opex memorandum currently shows a net income for this year which is primarily due to changes in the Business Rates that Network Rail has had to endure this year compared to the regulatory assumption. Well-publicised increases in Business Rates came into effect from April 2017 which has contributed to the value of the opex memorandum compared to the previous year and is expected to impact the for 2018/19 as well. 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, differences in Business Rates experienced this year along with gains made on the volume incentive in earlier years have contributed to the positive balance currently on the opex memorandum.

Statement 11:

There is no Statement 11 required for East Midlands

Statement 12: Volume incentives, East Midlands

in £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(1)	0	16	16	1.2%	1.56	pence per passenger train mile
Passenger farebox (millions)	0	0	576	557	3.4%	2.5%	% of additional farebox revenue
Freight train miles (millions)	0	0	2	2	1.6%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	2	0	1,872	1,719	1.9%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	1	0					

The cumulative volume incentive is determined by the following calculation:

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

Where:

A_t = Actual in year quantity

B = 2017-18 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, East Midlands – continued

In £m 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has achieved the regulator's targets, and so remains ahead of the targets for the control period to date. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5). The favourable variance has been achieved through extra passenger services and revenue.

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands

in £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Track	Conventional plain line Renewal	km	39	18	32	84	381	38	21	34	50	680
	High Output Renewal	km	-	-	15	26	577	26	16	16	26	615
	Plain line Refurbishment	km	9	2	2	10	200	7	2	3	9	333
	S&C Renewal/Refurbishment	point ends	48	5	6	89	67	94	12	18	145	124
	Track Drainage	lm	1	-	-	1,351	-	3,707	1	1	3,707	0
	Fencing	km	4	-	4	57	70	20	1	2	39	51
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	6	-	3	40	75	29	2	3	47	64
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	25	62	-	-	-	55	77	-	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	38	-	33	57	579
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-	9	-	12	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-	2	-	-	2	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-	7	3	5	11	455
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	12	50	-	-
Civils	Underbridges	m ²	458	-	-	458	-	10,685	15	30	17,256	2
	Overbridges (incl BG3)	m ²	(36)	-	-	100	-	1,427	8	11	1,468	7
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	437	2	6	15,473	0	446	1	6	23,197	0
	Culverts	m ²	242	-	-	422	-	564	-	1	564	2
	Footbridges	m ²	178	2	3	363	8	185	1	3	185	16
	Coastal & Estuarial Defences	m	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m ²	275	1	1	321	3	46	-	-	46	-
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	663	3	10	828	12	145	3	11	193	57
	EW Drainage	m	700	-	2	7,630	0	6,900	1	3	7,630	0
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	8	22	-	-	-	29	65	-	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Buildings (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Platforms (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Canopies (FS)	m ²	585	-	-	585	-	-	-	-	-	-
	Train sheds (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		-	-	-	-	-	200	-	1	200	5
	Light Maintenance Depots	m ²	400	-	1	400	3	6,725	-	1	6,725	0
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	-	-	-	-	-	198	-	-	198	-
	MDU Buildings	m ²	-	-	-	-	-	754	1	1	754	1
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	-	1	-	-	-	1	3	-	-

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

in £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	1	4	-	-	10	-	3	10	300
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	13	1	1	42	24	-	-	-	-	-
	Signalling Power Cables	km	14	1	2	16	125	2	-	-	2	-
	Signalling Supply Points	No.	-	-	-	-	-	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
Total			-	3	7	-	-	-	-	3	-	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-	-	-	-

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands – continued

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – In Conventional Plain Line Renewal the unit cost has decreased a lot from the prior year. In the prior year there were two jobs which made up nearly half of the volumes that had a particularly high unit cost. These skewed the data to give a high unit cost in that year. In S&C Renewals there was an expensive job at Leagrave in 2016-17 which didn't produce many volumes and therefore vastly increased the unit cost in this year. In the current year there were fewer jobs with much higher volumes so this helps to explain why the unit cost has decreased between the years.
- (3) Civils – In Earthworks there was a large decrease in unit costs. This was down to one anomaly which produced nearly half of the volumes in the year but had a very low cost. This massively brought down the unit cost in the year so it is difficult to make any comparisons with the prior year.

Statement 1: Summary regulatory financial performance, Kent

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	327	331	(4)	1,304	1,300	4	325
Fixed Income	28	28	-	101	102	(1)	22
Variable Income	89	106	(17)	370	403	(33)	91
Other Single Till Income	104	108	(4)	393	416	(23)	103
Opex memorandum account	3	-	3	8	-	8	3
Total Income	551	573	(22)	2,176	2,221	(45)	544
Operating expenditure							
Network operations	52	31	(21)	191	143	(48)	50
Support costs	19	40	21	92	166	74	20
Traction electricity, industry costs and rates	65	80	15	260	291	31	63
Network maintenance	106	79	(27)	422	327	(95)	114
Schedule 4	13	14	1	65	68	3	8
Schedule 8	8	-	(8)	90	1	(89)	31
Total operating expenditure	263	244	(19)	1,120	996	(124)	286
Capital expenditure							
Renewals	175	206	31	895	869	(26)	224
PR13 enhancement expenditure	426	428	2	2,145	2,185	40	563
Non PR13 enhancement expenditure	-	-	-	8	-	(8)	-
Total capital expenditure	601	634	33	3,048	3,054	6	787
Other expenditure							
Financing costs	245	250	5	690	753	63	186
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	245	250	5	690	753	63	186
Total expenditure	1,109	1,128	19	4,858	4,803	(55)	1,259

Statement 1: Summary regulatory financial performance, Kent – continued

In £m 2017-18 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 in the other statements of this document.
- (2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year and control period to date is in line with the regulatory expectation. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target with the lower electricity being the overwhelming contributor. Income is lower than the previous year mainly due to lower traction electricity 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 assumption mainly due to lower freight and property income. Income for the control period to date is lower than expected, mainly due to lower property income. These variances are 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 (June 2017). This year, the positive amount reported is largely due to differences on Network Rail High Speed 1 income compared to the PR13 assumption. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are in line with the previous year. Support costs are discussed 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 (offset by lower recoveries of these costs from operators through income). The savings made in the control period to date is also due to this. Traction electricity, industry costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Kent – continued

In £m 2017-18 prices unless stated

- (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. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are broadly in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are broadly similar to the determination. Costs for the control period to date are lower than the regulatory expectation as higher underlying costs have been compensated by fewer disruptive possessions being undertaken. Schedule 4 costs are discussed 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. Increased network traffic, infrastructure failures and some one-off incidents, notably the snow that Storm Emma brought, contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are lower than the previous year due to fewer one-off events this year as well as investment in train performance improvement initiatives. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to net deferrals of activity partially offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is higher than the determination which is mainly due to higher like-for-like costs partly offset by activity deferrals. Renewals is lower than the previous year with decreases across almost all categories as Network Rail seeks to invest its limited funds in the most optimal way. As the regulator expected more renewals work was undertaken in earlier years of the control period. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is consistent with the baseline but reflects the net position across a number of different programmes. These variances are set out in more detail in Statement 3.
- (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 so the higher investment in the current year and the control period to date is axiomatic. There was no such investment undertaken this year. These items are set out in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are slightly lower than the determination due to lower average debt than expected. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Kent

in £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	5,313	5,194	119
Indexation to 2016-17 prices	431	421	10
Opening RAB for the year (2016-17 prices)	5,744	5,615	129
Indexation for the year	223	218	5
Opening RAB (2017-18 prices)	5,967	5,833	134
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	162	206	(44)
PR13 enhancements	417	417	-
Non-PR13 enhancements	-	-	-
Total enhancements	417	417	-
Amortisation	(220)	(220)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2018	6,326	6,236	90

RAB Regulatory financial position - cumulative, Kent

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	4,128	4,823	5,431	5,967	4,128
Adjustments for the actual capital expenditure outturn in CP4	116	-	-	-	116
Renewals	232	224	201	162	819
PR13 enhancements	545	589	546	417	2,097
Non-PR13 enhancements	6	1	-	-	7
Total enhancements	551	590	546	417	2,104
Amortisation	(204)	(206)	(211)	(220)	(841)
Adjustments for under-delivery of regulatory outputs	-	-	-	-	-
Closing RAB	4,823	5,431	5,967	6,326	6,326

Statement 2a: RAB - regulatory financial position, Kent – continued

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (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.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB) as well as re-profiling activity to the final year of the control period and beyond. 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 in line with the determination expectation. Efficient overspend (notably Thameslink and Crossrail) was offset by extra investment compared to the regulatory assumption.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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. There were no such schemes in the current year.
- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

Statement 2a: RAB - regulatory financial position, Kent – continued

In £m 2017-18 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	239	230	196	206	871
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	38	-	-	-	38
Capitalised financing on CP4 deferrals	1	2	2	2	7
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (renewals)	278	232	198	208	916
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(107)	(70)	(65)	(77)	(319)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(6)	(9)	(13)	(30)
Adjustments for efficient overspend	77	81	92	47	297
Capitalised financing on efficient overspend	1	5	9	12	27
25% retention of efficient overspend	(18)	(20)	(23)	(12)	(73)
Capitalised financing on efficient overspend 25% retention	-	(1)	(2)	(3)	(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	5	3	1	(1)	8
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	-	-	1	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other adjustments	(1)	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	232	224	201	162	819
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	-	-	-	2	2
Adjustment for 25% retention of efficient overspend	20	20	23	11	74
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	(2)	(2)	-	-	(4)
Total actual renewals expenditure (see statement 9)	250	242	224	175	891

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

in £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	567	576	517	417	2,077
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	-	55	43	11	109
Capitalised financing on Baseline adjustments	-	1	3	4	8
Adjustments to DfT funding	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (enhancements)	571	628	563	432	2,194
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(85)	(82)	(138)	(40)	(345)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(5)	(10)	(15)	(32)
Adjustments for efficient underspend	-	-	(6)	(6)	(12)
Capitalised financing on efficient underspend	-	-	-	-	-
25% retention of efficient underspend	-	-	2	1	3
Capitalised financing of 25% efficient underspend	-	-	-	-	-
Adjustments for efficient overspend	-	-	-	-	-
Capitalised financing on efficient overspend	-	-	-	-	-
25% retention of efficient overspend	-	-	-	-	-
Capitalised financing of 25% efficient overspend	-	-	-	-	-
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	71	52	148	44	315
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	(11)	(7)	(20)	(10)	(48)
Capitalised financing relating to projects with tailored protocols or fixed price	1	4	7	11	23
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	(1)	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	545	589	546	417	2,097
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	7	1	-	-	8
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	-	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of 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)	551	590	546	417	2,104
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	1	-	-	-	1
Adjustment for 25% retention of efficient overspend	12	8	18	9	47
Other Adjustments	-	-	-	-	-
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	3	3	6	58	70
Other adjustments	1	-	-	-	1
Total actual enhancement expenditure (see statement 3)	568	601	570	484	2,223

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

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening three years of the control period, 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 (June 2017), 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 June 2017) 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 with notable contributions from Track and Civils projects. 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.

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

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure. The reduction reported in the current year reflects decreased planned expenditure in this category across the whole control period compared to planned levels of investment included in Business Plans earlier in the control period.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. The increase reported in the current year reflects the reduced expenditure on such schemes compared to earlier plans as noted above.
- (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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, 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 first year of the control period were reversed in the second year of the control period.
- (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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink and Crossrail).

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

In £m 2017-18 prices unless stated

- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programmes have been re-profiled into CP6 and beyond.
- (12) Enhancements – Adjustments for efficient underspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient underspend. This means that 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 saving, with notable contributions from Kent Power Supply Upgrade. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (13) Enhancements - 25% retention of efficient underspend – following on from the above comment, this heading represents the 25 per cent of the underspend that Network Rail can add 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 and Crossrail programmes 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 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 3: Analysis of enhancement capital expenditure, Kent

in £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	3	-	(3)	8	7	(1)
Stations - Access for All (AfA)	-	(18)	(18)	18	3	(15)
Development	-	(1)	(1)	3	1	(2)
Level crossing safety	5	7	2	10	14	4
Passenger journey improvement	1	11	10	3	12	9
The strategic rail freight network	-	-	-	-	-	-
Total funds	9	(1)	(10)	42	37	(5)
Committed projects						
Crossrail	32	37	5	182	271	89
Thameslink	375	350	(25)	1,644	1,531	(113)
Total committed projects	407	387	(20)	1,826	1,802	(24)
HLOS capacity metric schemes						
East Kent resignalling phase 2	-	-	-	55	57	2
New Cross Grid	8	-	(8)	14	16	2
Kent traction power supply upgrade	11	12	1	30	36	6
Total HLOS capacity metric schemes	19	12	(7)	99	109	10
CP4 project rollovers						
Kent power supply upgrade (CP4)	2	(7)	(9)	66	68	2
Package 4: Gravesend Train Lengthening	-	-	-	-	(1)	(1)
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	2	(7)	(9)	66	67	1
Other projects						
Seven day railway projects	-	1	1	4	6	2
ERTMS Cab fitment	-	(1)	(1)	-	-	-
R&D allowance	-	-	-	1	1	-
Depots and stabling	4	13	9	8	18	10
Income generating property schemes	29	24	(5)	143	145	2
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	(44)	-	44	(44)	-	44
Total other projects	(11)	37	48	112	170	58
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	426	428	2	2,145	2,185	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	-	-	-	3	-	(3)
Total Network Rail spend to save schemes	-	-	-	3	-	(3)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	-	-	-	-	-	-
Total non PR13 enhancement expenditure	-	-	-	8	-	(8)
Total Network Rail funded enhancements (see Statement 1)	426	428	2	2,153	2,185	32
Third Party PAYG	58	-	(58)	69	-	(69)
Total enhancements (see statement 2b)	484	428	(56)	2,222	2,185	(37)

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

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 Thameslink and Crossrail). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £426m (as shown in Statement 1). This comprises the total enhancement figure in the table above £484m less the PAYGO schemes funded by third parties (£58m).
- (5) Investment expenditure this year was lower line with the previous year as delivery of milestones on Thameslink and Crossrail were previously achieved.
- (6) 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 review) 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. Overall, expenditure in this category this year was higher than the baseline, which brings the control period to date position closer to target. Noteworthy variances between expenditure in the year and the baseline are set out below:

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

In £m 2017-18 prices unless stated

- a. Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure this year was higher than the baseline, reflecting a catch up of projects deferred earlier in the control period. Notable projects this year included Herne Hill and Stood stations.
 - b. 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. Investment in the control period to date has been higher than planned although this is planned to be in line with the control period target by the end of the control period.
 - c. Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year was in broadly consistent with the Henday baseline but is still behind for the control period to date largely as a result of contractor disputes leading to delay in delivery in earlier years. Slower delivery has also been caused by local council planning issues on certain projects and delays to coincide with delivery of other projects (including non-rail items).
 - d. 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 was lower than the baseline this year as work has been deferred into future control periods. Fewer schemes have been identified this control period than expected that meet the criteria for investing in the fund.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is slightly higher the baseline, which is due to the net position on Crossrail and Thameslink as set out below:
- a. Thameslink - The objective of this network wide programme is to increase the frequency with which services could operate on this part of the rail network. Expenditure in the year and the control period to date is higher than the baseline as more work has been delivered on this section of the network to date than planned. This is partly due to financial underperformance and is reflected 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 network wide 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 largely in line with the regulator's determination in the year but lower than the baseline in the control period to date as some of the work in this area has been deferred into future years. In addition, there has been some negative financial performance (reported in Statement 5a) as the total programme is now expected to cost more than the baseline funding available. 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).
- (8) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is higher than the baseline, with the largest contributions from New Cross Grid project. The control period to date variance is driven by lower expenditure across all projects in this category. The following notable variances between expenditure and baselines are set out below:

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

In £m 2017-18 prices unless stated

- a. 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 this year was minimal as the project is substantially complete. Costs for the control period to date are broadly in line with the baseline.
 - b. New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure in the year is higher than the baseline which offsets most of the underspend in the opening three years of the control period, with the remainder of the under delivery expected to be caught up in the final year 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 in the year is in line with the baseline but is lower in the control period to date. Whilst some of this is planned to be caught up next year, overall costs are lower due to the recognition of financial outperformance (refer to Statement 5a).
- (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. Expenditure in this category is dominated by Kent Power Supply Upgrade (CP4) – a project that will provide the power to facilitate 12 car operation across the route. Expenditure in the current year was higher than the baseline as the level of funding available was adjusted. Spend for the control period to date is lower than the baseline which reflects savings made by the project resulting in financial outperformance (Statement 5c).
- (10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a capital grant from DfT in the year, an element of which was allocated to Kent. This reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is largely in line with the ORR assumption. Notable variances to the baseline include:
- a. Depots & 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 in the year is less than the baseline, continuing the trend from earlier years of the control period. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT.

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

In £m 2017-18 prices unless stated

- 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 6a). 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 current year is higher than the regulator's target bringing the control period to date in line with the baseline. The main project this year was undertaken at London Bridge to improve the retail units to coincide with the Thameslink redevelopment works, building on the investment in the previous year.
 - c. Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period to date which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry and the funds to complete such projects. As part of the Hendy review, the scarce funds available were diverted onto those programmes that were considered to deliver better strategic outputs for the industry. As a result, funding available for this category was minimised.
 - d. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme in England & Wales, a portion of which has been allocated to each of the operational routes. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB (refer to Statement 2a).
- (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 2a) or recognised as financial performance (refer to Statement 5c) 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. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.
 - b. PAYGO – as noted above, this year DfT made a cash contribution to the enhancement portfolio in England & Wales this year, an element of which is allocated to each of the operational routes, reducing the amount that is added to the RAB in the above categories and increasing expenditure in this area. This extra grant is the main reason for the increase in expenditure in this heading this year compared to 2016/17.

Statement 4: Net debt and financial ratios, Kent

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	4,615	4,423	(192)	2,590	2,530	(60)
Income						
Grant income	(327)	(331)	(4)	(1,250)	(1,246)	4
Fixed charges	(28)	(28)	-	(98)	(98)	-
Variable charges	(89)	(106)	(17)	(355)	(388)	(33)
Other single till income	(104)	(108)	(4)	(377)	(396)	(19)
Total income	(548)	(573)	(25)	(2,080)	(2,128)	(48)
Expenditure						
Network operations	52	31	(21)	182	134	(48)
Support costs	19	40	21	87	157	70
Traction electricity, industry costs and rates	65	80	15	250	279	29
Network maintenance	106	79	(27)	405	313	(92)
Schedule 4	13	14	1	62	66	4
Schedule 8	8	-	(8)	86	-	(86)
Renewals	175	206	31	850	832	(18)
PR13 enhancement	426	417	(9)	2,050	1,986	(64)
Non-PR13 enhancement	-	-	-	8	-	(8)
Total expenditure	864	867	3	3,980	3,767	(213)
Financing						
Interest expenditure on nominal debt - FIM covered	38	85	47	152	248	96
Interest expenditure on index linked debt - FIM covered	25	33	8	91	106	15
Expenditure on the FIM	29	54	25	121	171	50
Interest expenditure on government borrowing	82	-	(82)	157	-	(157)
Interest on cash balances held by Network Rail	-	(3)	(3)	(3)	(7)	(4)
Total interest costs	174	169	(5)	518	518	-
Accretion on index linked debt - FIM covered	71	81	10	156	235	79
Total financing costs	245	250	5	674	753	79
Corporation tax	-	-	-	-	-	-
Other	150	-	(150)	162	45	(117)
Movement in net debt	711	544	(167)	2,736	2,437	(299)
Closing net debt	5,326	4,967	(359)	5,326	4,967	(359)

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	0.49	0.46	0.32	0.37	0.64
FFO/interest	2.95	2.94	2.65	1.63	1.94
Net debt/RAB (gearing)	72.6%	76.1%	80.4%	84.2%	79.7%
FFO/debt	7.3%	6.2%	5.3%	5.3%	6.6%
RCF/debt	4.2%	3.4%	2.4%	2.1%	3.2%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	n/a

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

In £m nominal unless otherwise stated

Note:

- (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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Kent as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to Kent has increased by £0.7bn 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.
- (3) Net debt attributable to Kent at 31 March 2018 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 performance regime costs, higher net operating costs and movements in working capital have driven increases in debt. These extra cash outflows have been partly mitigated by financing costs savings and slower delivery of enhancements.
- (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 other 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 as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(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 made 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 year. This is largely due to lower average debt held during the year. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are marginally higher than the previous year which, *ceteris paribus*, is expected as the interest expense on index-linked debt in the previous year is added to the principle for future years and there are no scheduled repayments of this type of debt in the current control period. Additionally, RPI this year has been higher than the previous year, thus increasing the interest expense recognised in 2017/18.
- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year.

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

In £m nominal unless otherwise stated

- 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than the regulator assumed for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail’s reclassification as a government body (as noted above) which offsets higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of funding made available during the course of construction on enhancement projects.

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

In £m nominal unless otherwise stated

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

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator did not expect Network Rail to cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging 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 Maintenance costs and lower turnover partly offset by savings in Support costs as described elsewhere in these accounts. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

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

In £m nominal unless otherwise stated

- (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 2017/18 is higher than the regulatory comparative which is mainly due to efficient capital overspend and higher net operational costs partly offset by interest savings. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected.
- (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 adverse variance to the regulator’s assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. The decline in the ratio this 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, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Kent

in £m 2017-18 prices unless stated

2017-18

	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 $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	327	331	(4)	(4)	-	-	-	-
Fixed Income	28	28	-	-	-	-	-	-
Variable Income	48	50	(2)	-	-	-	(2)	(2)
Other Single Till Income	104	108	(4)	(4)	-	-	-	-
Opex memorandum account	3	-	3	5	-	-	(2)	(2)
Total Income	510	517	(7)	(3)	-	-	(4)	(4)
Expenditure								
Network operations	52	31	(21)	-	-	-	(21)	(21)
Support costs	19	40	21	-	-	-	21	21
Industry costs and rates	22	20	(2)	(1)	-	-	(1)	(1)
Traction electricity	2	4	2	-	-	-	2	2
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	106	79	(27)	-	(5)	-	(22)	(22)
Schedule 4 costs	13	14	1	-	3	-	(2)	(2)
Schedule 8 costs	8	-	(8)	-	-	-	(8)	(8)
Renewals	175	206	31	1	77	-	(47)	(12)
PR13 Enhancements	426	428	2	-	40	-	(38)	(9)
Non PR13 Enhancements	-	-	-	-	-	-	-	-
Financing Costs	245	250	5	5	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,068	1,072	4	5	115	-	(116)	(52)
Total:			(3)	2	115		(120)	(56)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(56)
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 milestones for asset management - data quality								(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(1)
Total financial out / (under) performance to be recognised								(57)

Statement 5a: Total financial performance, Kent - continued

in £m 2017-18 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Variance not included in total financial performance Due to:	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C	D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
			Favourable / (Adverse)					
Income								
Grant Income	1,304	1,300	4	4	-	-	-	-
Fixed Income	101	102	(1)	(1)	-	-	-	-
Variable Income	199	204	(5)	-	-	-	(5)	(5)
Other Single Till Income	393	416	(23)	(12)	-	-	(11)	(11)
Opex memorandum account	8	-	8	11	-	-	(3)	(3)
Total Income	2,005	2,022	(17)	2	-	-	(19)	(19)
Expenditure								
Network operations	191	143	(48)	(5)	-	-	(43)	(43)
Support costs	92	166	74	2	-	-	72	72
Industry costs and rates	78	74	(4)	-	-	-	(4)	(4)
Traction electricity	10	17	7	-	-	-	7	7
Reporter's fees	1	1	-	-	-	-	-	-
Network maintenance	422	327	(95)	-	(21)	-	(74)	(74)
Schedule 4 costs	65	68	3	-	15	-	(12)	(12)
Schedule 8 costs	90	1	(89)	-	-	-	(89)	(89)
Renewals	895	869	(26)	1	259	-	(286)	(72)
PR13 Enhancements	2,145	2,185	40	-	342	-	(302)	(45)
Non PR13 Enhancements	8	-	(8)	-	(8)	-	-	-
Financing Costs	690	753	63	63	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	4,687	4,604	(83)	61	587	-	(731)	(260)
Total:			(100)	63	587	-	(750)	(279)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								
(279)								
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(46)
Under-delivery of train performance requirements (CaSL)								(15)
Missed milestones for asset management - data quality								(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(3)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(65)
Total financial out / (under) performance to be recognised								
(344)								

	2017-18				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	(41)	(56)	-	15	(171)	(199)	-	28
Total variance not included in total	(41)	(56)	-	15	(171)	(199)	-	28
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 - Network operations:								
Southern resilience fund	-	-	-	-	(5)	-	-	(5)
Total variance not included in total	-	-	-	-	(5)	-	-	(5)
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction	41	56	-	(15)	171	199	-	(28)
Total variance not included in total	41	56	-	(15)	171	199	-	(28)

Statement 5a: Total financial performance, Kent – continued

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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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 assess 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 in the control period to date 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.

Statement 5a: Total financial performance, Kent – continued

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- (3) Variable income – across the control period to date, income has been lower than expected as traffic growth has not kept up with the expectation in the determination. 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. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – this year, financial underperformance has been neutral. This is mainly due to variances on Network Rail High Speed income offset by lower property rental income. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. An adjustment has been made (in Column D) to reflect income earned from Network Rail High Speed compared to the regulatory assumption. This organisation is subject to a different regulatory regime than the rest of Network Rail and differences between the amount anticipated to be earned under this new regulatory regime (which started 1 April 2015) and the assumption in the PR13 is treated as neutral when assessing financial performance. The underperformance recognised in the control period to date is mostly due to lower than expected property income (both rental and sales). Other single till income is set out in more detail in Statement 6a.
- (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 and in the control period to date. Slower passenger revenue growth has resulted in financial underperformance being recognised this year. The volume incentive is discussed in more detail in Statement 12.

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- (6) Network operations in 2017/18 are higher than the regulator assumed. 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 greater than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. There are also some extra managed stations costs due to the redevelopment of London Bridge which has necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. In September 2016 the DfT announced its intention to invest £20m to help improve the performance of Southern trains in the wake of crippling industrial action. Network Rail is funding this programme. It has been agreed with the regulator that spend will be considered outside the scope of the financial performance (column D) as it relates to outputs over and above those set out in the determination and is taking place at the request of the DfT rather than from Network Rail management decisions. Note that this £20m is different to the £300m emergency funding that will be invested to alleviate performance issues on Southern that was announced in January 2017. Again, it has been agreed with the regulator that this fund will be outside the scope of the FPM.
- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business, continuing the trend of earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D.

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- (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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at major transport hubs elsewhere on the network (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance). The control period to date position reflects similar factors to those noted above.
- (10) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

Statement 5a: Total financial performance, Kent – continued

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- (11) Schedule 4 costs – costs are broadly in line with the determination assumed. In the control period to date costs are lower than the regulator expected but this is due to higher average possession costs being offset by deferral of renewals activity requiring possessions (refer to Statement 9a). Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance, hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The higher costs in the control period are also due to external events, such as extreme weather. The most noticeable example is the closure of part of the network following the collapse of Dover sea wall.
- (12) Schedule 8 costs – costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident has been high. Extra focus has been put on improving this metric as part of the company's strategy and improvements have been made this year but there is still potential for improvement. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of days punctuality and so resulted in significant compensation payments. Costs are lower than the previous year. As noted in the previous year's Regulatory financial statements, there were a number of one-off events which impacted performance, whilst this year there were fewer and less disruptive external events. In addition, there has been investment in improving performance on this part of the network which has paid dividends this year. Although this increases costs elsewhere it does have a benefit to schedule 8 costs and overall train performance.

Statement 5a: Total financial performance, Kent – continued

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- (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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (14) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme and is dominated by Thameslink in both the current year and the control period to date. Individual programme variances are 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). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (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 levels of average net debt than during the year compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, Kent – continued

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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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.
- (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. Whilst targets for operators in Kent were achieved in 2017/18, they were missed in earlier years 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. Whilst targets for operators in Kent were achieved in 2017/18, they were missed in earlier years 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.
- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.
- (5) Asset management – the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this year.

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

in £m 2017-18 prices unless stated

2017-18								
	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	(14)	2	(16)	(4)		(4)	-	-
Signalling	14	18	(4)	(1)		(1)	-	-
Civils	(5)	11	(16)	(4)		(4)	-	-
Buildings	10	10	-	-		-	-	-
Electrical power and fixed plant	7	11	(4)	(1)		-	(1)	-
Telecoms	7	11	(4)	(1)		(1)	-	-
Wheeled plant and machinery	1	1	-	-		-	-	-
IT	1	1	-	-		-	-	-
Property	2	2	-	-		-	-	-
Other renewals	8	11	(3)	(1)		(1)	-	-
Total	31	78	(47)	(12)		(11)	(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	(9)	59	(68)	(17)		(16)	(1)	-
Signalling	(2)	54	(56)	(14)		(15)	1	-
Civils	(39)	61	(100)	(25)		(22)	(3)	-
Buildings	(14)	14	(28)	(7)		(3)	(4)	-
Electrical power and fixed plant	60	80	(20)	(5)		(3)	(2)	-
Telecoms	20	28	(8)	(2)		(1)	(1)	-
Wheeled plant and machinery	11	11	-	-		-	-	-
IT	(8)	(8)	-	-		-	-	-
Property	11	11	-	-		-	-	-
Other renewals	(56)	(50)	(6)	(2)		-	(2)	-
Total	(26)	260	(286)	(72)		(60)	(12)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

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, continuing the trend from the previous years of the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

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

In £m 2017-18 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Nearly 40 per cent of this was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The practical deliveries of using High Output delivery methods resulted in Kent electing not to use this delivery method in 2017/18. However, there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which all contributed to the financial underperformance this year. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets, continuing the pattern of earlier years of the control period. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, notable East Kent resignalling scheme where contractor tenders were much higher than the determination assumed. Despite the unfavourable costs, given the asset condition and potential performance impact, the scheme needed to continue. 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.

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

In £m 2017-18 prices unless stated

- (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. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. Funding shortages has also encouraged additional minor works even though this isn't necessarily the best whole life solution, thus attracting financial underperformance. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network, notably the repair of Dover sea wall following collapse in the wake of storms.
- (5) Buildings – whilst no financial underperformance has been reported this year for this asset, there is underperformance for the control period to date. 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. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition contractor performance has been below expectation.
- (6) Electrical power and fixed plant – as with previous years, financial underperformance has been reported for this asset category in the current year. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. The costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation, which has been exacerbated by priority for plant being given to support the Great Western electrification enhancement programme elsewhere on the network. Extra volumes have been required on certain projects (notably for conductor rail) which has resulted in additional costs and there has been additional scope needed to deliver the required workbank. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. The underperformance in the control period to date is largely due to the same factors.

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

In £m 2017-18 prices unless stated

- (7) Other – this is made up of a number of different categories including the following:
- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
 - b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.
 - c. CP4 rollover: 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. The underperformance recognised in the control period to date includes notable contributions from FTN.

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

in £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(25)	5	-	(30)	(7)
Kent power supply upgrade	(9)	(12)	-	3	-
Crossrail	5	19	-	(14)	(3)
Seven day railway	1	1	-	-	-
Other Enhancements	30	27	-	3	1
Total	2	40	-	(38)	(9)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(113)	176	-	(289)	(41)
Kent power supply upgrade	2	(7)	-	9	2
Crossrail	89	114	-	(25)	(7)
Seven day railway	2	2	-	-	-
Other Enhancements	52	49	-	3	1
Total	32	334	-	(302)	(45)

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

In £m 2017-18 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 and so 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 their 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 incoming 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). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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 expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. 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 overspend. The size and complex nature of this programme means that there are a number of risks which need to be successfully managed to deliver the remainder of the programme within the latest forecast.

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

In £m 2017-18 prices unless stated

- (2) 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 and unforeseen energy interoperability rules compliance costs for the installation of West Outer Overhead Line Equipment. In addition, higher contractor costs have been caused by design updates and changes in access strategy (with primacy granted to Great Western Electrification programme). Efficiency challenges in the original plans have not been achieved putting further pressure on funding. The strategic importance for the overall railway network of completing this programme to agreed timescales places extra strain on efficient delivery. 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.
- (3) Kent traction power supply upgrade (CP4) - outperformance has been recognised in the year and the control period to date due to lower programme costs which have been identified this year. The project is largely complete and delivery risks (including management of contractor variation claims) have been successfully managed, resulting in decreased expected final costs. There have been further reductions to programme costs identified this year as part of successful close-out of final contractor claims and accounts.
- (4) 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. In addition, minor financial performance variances are captured through this heading.

Statement 5d: Total financial performance - REBS Performance, Kent

in £m 2017-18 prices unless stated

	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Cumulative to 2017-18 Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	48	46	2	-	-	-	2
Capacity charge	81	89	(8)	-	-	-	(8)
Electricity asset utilisation charge	5	5	-	-	-	-	-
Property income	171	173	(2)	-	-	-	(2)
Expenditure	-	-	-	-	-	-	-
Network operations	191	135	(56)	-	-	-	(56)
Support costs	92	180	88	-	2	-	86
RSSB and BT Police	26	22	(4)	-	-	-	(4)
Network maintenance	422	332	(90)	(21)	-	-	(69)
Schedule 4 costs	65	76	11	23	-	-	(12)
Schedule 8 costs	90	-	(90)	-	-	-	(90)
Renewals	895	790	(105)	181	-	(214)	(72)
Total REBS performance			(254)	183	2	(214)	(225)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(46)
Under-delivery of train performance requirements (CaSL)							(15)
Missed milestones for asset management - data quality							(1)
Missed ORBIS milestones							(3)
Total adjustment for under delivery of outputs and reduced sustainability							(65)
Cumulative performance to end of 2017-18							(290)
Less cumulative outperformance recognised up to the end of 2016-17							(255)
Net REBS performance for 2017-18							(35)

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

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

In £m 2017-18 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	327	331	(4)	1,304	1,300	4	325
Franchised track access income							
Fixed charges	28	28	-	101	102	(1)	22
Variable charges							
Variable usage charge	11	10	1	43	40	3	10
Traction electricity charges	41	56	(15)	171	199	(28)	43
Electrification asset usage charge	2	1	1	5	5	-	1
Capacity charge	19	22	(3)	81	88	(7)	20
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	16	17	(1)	70	71	(1)	17
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	89	106	(17)	370	403	(33)	91
Total franchised track access income	117	134	(17)	471	505	(34)	113
Total franchised track access and grant income	444	465	(21)	1,775	1,805	(30)	438
Other single till income							
Property income	52	55	(3)	179	205	(26)	44
Freight income	1	3	(2)	6	11	(5)	1
Open access income	-	-	-	-	-	-	-
Stations income	35	31	4	132	120	12	38
Facility and financing charges	-	1	(1)	-	4	(4)	-
Depots Income	7	7	-	29	30	(1)	7
Other income	9	11	(2)	47	46	1	13
Total other single till income	104	108	(4)	393	416	(23)	103
Total income	548	573	(25)	2,168	2,221	(53)	541

Statement 6a: Analysis of income, Kent – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity) and lower government grants (arising from lower inflation). These shortfalls have been partly offset by extra income earned from offering additional services to operators). Income for the control period to date is lower than the regulatory target due to lower traction electricity income and reduced property income. Income is higher than the previous year mainly due to extra property income.

Statement 6a: Analysis of income, Kent – continued

In £m 2017-18 prices unless stated

- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only 10.96 per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table.

- (4) Fixed charges – fixed charge income is in line with the regulatory determination for the current year and the control period to date. Fixed charges are higher than last year but this is mostly due to the expectation in the determination.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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). As market prices have been lower than the regulator assumed in each of the last four years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (6) Capacity charge – in the current year this is lower than the determination expected as fewer trains were run. The control period to date also suffers from performance in the previous year. As noted in last year's Regulatory financial statements, the number of trains ran was lower than planned due to industrial action in the South East of England disrupting the journeys of passengers.

Statement 6a: Analysis of income, Kent – continued

In £m 2017-18 prices unless stated

- (7) Property income – this is lower than the determination target this year with lower property rental income partly offset by higher than expected property sales. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway. Income in the control period to date is lower than the regulatory target as the expected increases in property rental income has not materialised. Property income is higher than the previous year due to increases in both rents earned through the commercial estate as well as extra disposals.
- (8) Freight Income – this is below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. The structural changes facing the freight market over the past four years has driven the adverse performance to the regulator's assumption for the lower control period to date.
- (9) Stations income – revenue earned this year is higher than the regulator expected. This is mostly due to extra income earned following the redevelopment of London Bridge station. Whilst this has increased income it has also led to higher running costs for this station and so higher costs in Statement 7a. This is also the main driver behind the higher income earned in this control period. Income is lower than the prior year which benefitted from non-recurring items, including the favourable settlement of commercial disputes.
- (10) Facility and financing charges – income in this category is 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.
- (11) Other income – income – this category includes 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. Whilst the values are broadly in line with the regulator's determination there is a positive underlying performance. The regulator's targets in the PR13 assumed a certain level of income that could be generated through the Network Rail High Speed operations. The quinquennial regulatory control period for High Speed does not run concurrently with Network Rail's determination and instead runs from April 2015 to March 2020. The regulatory determination for High Speed set out lower levels of net income than the PR13 assumption. Network Rail is held neutral for this reduced income through its measure of financial performance (refer to Statement 5a). Despite this Network Rail have been able to enact efficiency strategies to outperform the targets in the High Speed determination. Income is lower than the previous year as the High Speed efficiency targets become more challenging.

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

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Property Income							
Property rental	42	53	(11)	159	197	(38)	38
Property sales	10	7	3	20	26	(6)	6
Adjustment for commercial opex	-	(5)	5	-	(18)	18	-
Total property income	52	55	(3)	179	205	(26)	44
Freight income							
Freight variable usage charge	1	2	(1)	5	6	(1)	1
Freight traction electricity charges	-	1	(1)	-	2	(2)	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	1	(1)	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	1	-	1	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	1	3	(2)	6	11	(5)	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	-	12	12	-	3
Qualifying expenditure	10	5	5	32	19	13	12
Total managed stations income	13	8	5	44	31	13	15
Franchised stations income							
Long term charge	14	14	-	55	54	1	15
Stations lease income	8	9	(1)	33	35	(2)	8
Total franchised stations income	22	23	(1)	88	89	(1)	23
Total stations income	35	31	4	132	120	12	38
Facility and financing charges							
Facility charges	-	1	(1)	-	4	(4)	-
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	-	1	(1)	-	4	(4)	-
Depots income	7	7	-	29	30	(1)	7
Other	9	11	(2)	47	46	1	13
Total other single till income	104	108	(4)	393	416	(23)	103

Statement 6b: Analysis of other single till income (unaudited), Kent – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	16	17	1	61	75	14	16
Signalling shift managers	1	1	-	7	5	(2)	1
Local operations managers	1	1	-	7	5	(2)	1
Controllers	2	3	1	8	11	3	2
Electrical control room operators	3	1	(2)	11	4	(7)	3
Total signaller expenditure	23	23	-	94	100	6	23
Non-signaller expenditure							
Mobile operations managers	3	2	(1)	12	10	(2)	3
Managed stations	6	3	(3)	22	13	(9)	6
Performance	-	1	1	3	5	2	-
Customer relationship executives	-	-	-	-	3	3	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	9	1	(8)	31	6	(25)	7
Other	1	1	-	3	4	1	-
Operations delivery	-	-	-	1	-	(1)	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	2	-	(2)	10	-	(10)	6
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	21	2	(19)	36	9	(27)	8
Other operating income	(13)	(2)	11	(21)	(7)	14	(3)
Total non-signaller expenditure	29	8	(21)	97	43	(54)	27
Total network operations expenditure	52	31	(21)	191	143	(48)	50
Support costs							
Core support costs							
Human resources	1	5	4	8	20	12	1
Information management	4	5	1	14	22	8	4
Government and corporate affairs	1	1	-	3	6	3	1
Group strategy	-	1	1	3	5	2	1
Finance	2	2	-	6	9	3	1
Business services	1	1	-	5	5	-	3
Accommodation	7	12	5	45	49	4	8
Utilities	1	3	2	6	12	6	-
Insurance	2	3	1	9	13	4	(1)
Legal and inquiry	-	1	1	2	2	-	-
Safety and sustainable development	1	1	-	7	3	(4)	1
Strategic sourcing	-	1	1	2	3	1	1
Business change	-	-	-	1	1	-	-
Other corporate functions	1	-	(1)	5	1	(4)	1
Core support costs	21	36	15	116	151	35	21
Other support costs							
Asset management services	2	3	1	8	7	(1)	2
Network Rail telecoms	2	2	-	11	12	1	2
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(1)	-	1	(13)	-	13	(2)
Commercial property	3	(1)	(4)	(1)	(3)	(2)	-
Group costs	(8)	-	8	(29)	(2)	27	(3)
Total other support costs	(2)	4	6	(24)	15	39	(1)
Total support costs	19	40	21	92	166	74	20
Traction electricity, industry costs and rates							
Traction electricity	43	60	17	181	216	35	44
Business rates	13	13	-	45	46	1	10
British transport police costs	6	5	(1)	23	19	(4)	6
RSSB costs	1	1	-	3	3	-	-
ORR licence fee and railway safety levy	2	1	(1)	6	5	(1)	2
Reporters fees	-	-	-	1	1	-	-
Other industry costs	-	-	-	1	1	-	1
Total traction electricity, industry costs and rates	65	80	15	260	291	31	63
Total network operations expenditure, support costs, traction electricity, industry costs and rates	136	151	15	543	600	57	133

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are lower than the determination assumed this year. Higher signaller costs have been more than mitigated by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a) and lower costs in central functions.
- (3) 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.
- (4) Network operations costs in 2017/18 are higher than the regulator assumed. 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 greater than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. There are also some extra managed stations costs due to the redevelopment of London Bridge which has necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Network Rail has also chosen to invest in performance improvement schemes. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are slightly higher than the previous year with the largest contribution arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business and are broadly consistent with the previous year.

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

In £m 2017-18 prices unless stated

- (6) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (7) Accommodation – these property expenses were lower than the determination, contributing to the control period to date saving. These lower costs were mainly due to some savings based on lower than planned occupancy levels, allowing parts of the estate to be sublet to other parts of the Network Rail organisation. Costs are comparable to the previous year.
- (8) Insurance - costs are favourable to the determination in the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (9) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.
- (10) Other corporate functions – costs are noticeably higher than the determination in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are broadly line with the previous year.

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

In £m 2017-18 prices unless stated

- (11) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (12) Commercial Property – net costs in the year are higher than the regulatory estimate. This is largely due to an increased assessment of doubtful debts. These extra costs in the current year have negated some of the savings made earlier in the control period. Net costs in the current year are higher than the previous year due to the aforementioned increase in doubtful debts.
- (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 mainly due to lower performance related payments to staff, re-organisation costs in the current year than the regulator expected as well as receipt of incentive payments for completion of parts of the Thameslink programme in line with agreed timescales. 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 mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and achieving Thameslink programme milestones. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is higher than the previous year due to the one-off contractual receipt earned from achieving Thameslink programme delivery milestones.
- (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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media.

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

In £m 2017-18 prices unless stated

- (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 6a and Statement 6b). Control period to date costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are broadly in line with the previous year.
- (16) 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 through the Opex memorandum account mechanism (refer to Statement 10). Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency. As a result, Network Rail expects costs to exceed the regulatory assumption for the final year of the control period too.
- (17) British Transport Police costs - expenses in the control period to date are higher than the determination assumed. 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. This year's costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs (including London Bridge). Costs in the current year are in line with 2016/17.

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

in £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	20	18	18	18	18
MOMS	4	3	3	3	3
Control	3	2	5	5	5
Planning & Performance Staff Costs	3	2	1	1	2
Managed Stations Staff Costs	1	2	2	2	2
Operations Management Staff Costs	2	-	1	1	1
Other	12	16	15	20	21
Total operations & customer services costs	45	43	45	50	52
Total Network Operations	45	43	45	50	52
Support					
Human resources					
Functional support	2	1	1	1	1
Training (inc Westwood)	1	2	1	-	-
Graduates	-	-	-	-	-
Apprenticeships	-	1	1	-	-
Other	1	1	-	-	-
Total human resources	4	5	3	1	1
Information management					
Support	1	-	-	-	1
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	3	3	4	4	3
Other	-	-	-	-	-
Total information management	4	3	4	4	4
Finance	1	1	1	1	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	4	1	2	1	1
Commercial property	8	14	10	8	10
Infrastructure Projects	(3)	(1)	(8)	(2)	(1)
Route Services	1	1	-	-	-
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	10	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	3	2	-	1
Network Rail Telecoms	-	3	5	2	2
Digital Railway	-	1	1	1	1
Safety Technical & Engineering	-	4	3	2	2
Government & Corporate Affairs	-	1	1	1	1
Business Services	-	1	1	3	1
Route Asset Management	-	(2)	-	-	-
Legal and inquiry	-	-	1	-	-
Group/central					
Pensions	-	-	-	-	-
Insurance	2	3	3	(1)	2
Redundancy/reorganisation costs	6	1	1	1	1
Staff incentives/Bonus Reduction	-	(2)	-	-	-
Accommodation & Support Recharges	-	(2)	(2)	(2)	(2)
Commercial claims settlements	-	-	(11)	-	(7)
ORR financial penalty	5	(2)	-	-	-
Other	-	1	(1)	(2)	-
Total group/central costs	13	(1)	(10)	(4)	(6)
Total support	45	36	17	20	19
Total network operations and support costs	90	79	62	70	71

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Kent – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

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

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	46	27	(19)	172	114	(58)	46
Signalling	17	13	(4)	67	52	(15)	16
Civils	11	10	(1)	40	44	4	8
Buildings	9	5	(4)	39	17	(22)	21
Electrical power and fixed plant	6	6	-	28	22	(6)	6
Telecoms	3	2	(1)	12	9	(3)	4
Other network operations	12	11	(1)	53	48	(5)	11
Asset management services	2	2	-	11	10	(1)	3
National Delivery Service	(1)	3	4	(3)	13	16	(1)
Property	2	1	(1)	7	3	(4)	1
Group	(1)	(1)	-	(4)	(5)	(1)	(1)
Total maintenance expenditure	106	79	(27)	422	327	(95)	114

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

In £m 2017-18 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 previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by higher asset inspection costs. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling affecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17.

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

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting legal changes to overtime.
- (4) Civils – costs were in line with the determination this year as higher inspection and reactive maintenance costs were offset by activity transferred to Asset management services, increasing costs in that area. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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 other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are lower than the determination mainly due to lower reactive maintenance partly offset by extra asset inspection costs. The rise in costs compared to the previous year is mostly due to additional reactive maintenance required this year.

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

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, compounding the position from earlier in the control period. Variances in this category 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 – costs for the current year are largely in line with the regulatory target but are higher in the control period to date, following additional costs incurred earlier in the control period. Expenditure is consistent with the previous year.
- (7) Telecoms – costs are higher than the regulatory assumption this year and in the control period to date. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. Delays in renewals delivery (refer to Statement 9a) have also contributed as additional maintenance costs are required to keep the assets running in the required manner.
- (8) Other network operations – costs for the current year are largely in line with the regulator's expectation. For the control period to date, the higher costs compared to the PR13 prediction is mainly caused by extra safety and performance improvement costs. 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 re-invest these funds in improving the safety and performance of the network. In the opening years of the control period there was investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are in line with the previous year.
- (9) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.

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

In £m 2017-18 prices unless stated

- (10) 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).

Statement 9a: Summary analysis of renewals expenditure, Kent

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	63	49	(14)	234	225	(9)	71
Signalling	19	33	14	182	180	(2)	38
Civils	31	26	(5)	164	125	(39)	47
Buildings	5	15	10	67	53	(14)	11
Electrical power and fixed plant	24	31	7	102	162	60	30
Telecoms	5	12	7	19	39	20	3
Wheeled plant and machinery	7	8	1	25	36	11	5
Information Technology	5	6	1	32	24	(8)	7
Property	2	4	2	6	17	11	2
Other renewals	14	22	8	64	8	(56)	10
Total renewals expenditure	175	206	31	895	869	(26)	224

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

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially than offset by higher underlying costs (notably in Track and Civils). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination by around £20m. The determination assumed that around £20m of work across the renewals portfolio would have been deferred in the control period to date so without this adjustment expenditure would be in line with the regulatory assumption for the control period to date.
- (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 opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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. Investment in the control period to date is slightly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan, most notably for High Output. At the start of the control period it was expected that High Output would contribute around one-third of Plain Line track volumes in the route but actual volumes delivered have been negligible due to reliability issues with the High Output machinery and the high costs associated with the work.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure in the year was lower than the determination expected, bringing the control period to date position largely in line with the regulatory assumption. The control period to date position has been a combination of higher underlying costs which have been paid for by deferring activity into future years. The most notable area of cost increase was the East Kent Phase 2 programme, the final costs for which were much higher than planned at the time the determination was prepared, so other programmes have had to be postponed to afford this. The higher costs were caused by contractor delays, unforeseen increases to project scope and revised commissioning dates. The determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Therefore, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 lower than the previous year mostly due to the significant East Kent Phase 2 scheme being substantially completed in 2016/17.
- (4) Civils – expenditure in the year was higher than the regulator anticipated continuing the trend of the control period to date. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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 for the control period to date is higher than the determination. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (most notably damage to Dover seawall), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is lower than the previous year which included the impact of Dover seawall remediation works.

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

In £m 2017-18 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated, but still remains higher in the control period to date. The control period to date position is a result of lower volumes of activity partly offset by higher underlying costs. This has mainly been due to an inability to achieve the regulator's efficiency targets compounded by extra scope delivered at certain stations. There has been a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised this control period (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 (June 2017) 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 as a higher proportion of the Franchised station works were delivered earlier in the control period. In addition, costs have been more in line with the regulatory efficiency targets this year.
- (6) Electrical power and fixed plant – costs were lower than the regulator's assumption this year but higher for the control period to date. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. 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 scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. 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 (June 2017) 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). Whilst there was some outperformance recognised in the current year, this only partly mitigated the financial underperformance recognised in the opening three years of the control period. Investment in the control period has been lower than the regulator assumed, although this is expected to be partly caught up in the final year of the control period. The main saving has been on DC distribution. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure.
- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. Some of this underspend in the control period to date is expected to be caught up in the remaining year of the control period as further programmes are designed and delivered. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5) continuing the trend of the control period to date. For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) 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 for the control period to date is lower than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6.

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

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is broadly in line with the previous year.
- (9) Information technology – investment in the year is lower than the determination assumed, but higher in the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are lower than the regulator's assumption in the current year and the control period to date. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. The overall lower levels of investment this control period reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity.

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

In £m 2017-18 prices unless stated

(11) Other renewals includes the following notable items:

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure was lower than the previous year as programme milestones are delivered. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Intelligent infrastructure – expenditure inconsistent with the regulatory expectation this year, but lower in the control period to date. 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 and re-prioritisation of workbank (for example, to fit tubular stretch bars). Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – expenditure in the current year is higher than the regulator envisioned. This related to a catch up of projects deferred from earlier years, bringing the control period to date position largely in line with the determination.
- 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 with variances in the control period to date being reversed in the final year of the control period. 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 the previous control period (CP4), 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. Almost all of the expenditure in the current year is on 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).
- f. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail was to invest in this type of network improvement.

Statement 9b: Detailed analysis of renewals expenditure, Kent

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	25	17	(8)	95	74	(21)
High output renewal	4	8	4	9	18	9
Plain line refurbishment	5	2	(3)	18	14	(4)
S&C renewal	11	5	(6)	57	48	(9)
S&C refurbishment	5	4	(1)	18	19	1
Track non-volume	1	3	2	7	15	8
Off track	12	10	(2)	30	37	7
Total track	63	49	(14)	234	225	(9)
Signalling						
Full conventional resignalling	7	-	(7)	137	49	(88)
Modular resignalling	-	-	-	-	-	-
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	2	21	19	3	45	42
Targeted component renewal	-	2	2	-	17	17
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	3	2	(1)	8	12	4
Level crossings	1	-	(1)	13	21	8
Minor works	6	5	(1)	19	22	3
Centrally managed costs	-	3	3	2	14	12
Other	-	-	-	-	-	-
Total signalling	19	33	14	182	180	(2)
Civils						
Underbridges	10	5	(5)	57	43	(14)
Overbridges	1	1	-	7	5	(2)
Bridgeguard 3	-	-	-	-	-	-
Major structures	4	5	1	7	9	2
Tunnels	1	2	1	7	13	6
Other assets	5	4	(1)	28	14	(14)
Structures other	-	2	2	3	14	11
Earthworks	10	7	(3)	55	27	(28)
Other	-	-	-	-	-	-
Total civils	31	26	(5)	164	125	(39)
Buildings						
Managed stations	-	2	2	14	13	(1)
Franchised stations	5	12	7	45	34	(11)
Light maint depots	-	1	1	2	1	(1)
Depot plant	-	-	-	-	2	2
Lineside buildings	-	-	-	5	2	(3)
MDU buildings	-	-	-	1	1	-
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	5	15	10	67	53	(14)

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

in £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	1	-	(1)
Overhead Line	-	-	-	-	-	-
DC distribution	5	21	16	35	91	56
Conductor rail	-	4	4	12	22	10
SCADA	5	2	(3)	9	13	4
Energy efficiency	-	-	-	-	-	-
System capability / capacity	7	-	(7)	14	16	2
Other electrical power	2	1	(1)	16	4	(12)
Fixed plant	5	3	(2)	15	16	1
Total electrical power and plant	24	31	7	102	162	60
Telecoms						
Operational communications	-	7	7	-	9	9
Network	-	-	-	2	5	3
SISS	4	4	-	6	20	14
Projects and other	-	1	1	-	2	2
Non-route capital expenditure	1	-	(1)	11	3	(8)
Total telecoms	5	12	7	19	39	20
Wheeled plant and machinery						
High output	-	1	1	7	8	1
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	1	1	1	1	-
Intervention	2	2	-	4	9	5
Materials delivery	-	-	-	3	1	(2)
On track plant	1	1	-	3	5	2
Seasonal	-	-	-	-	3	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	2	2
Road vehicles	-	3	3	1	7	6
S&C delivery	4	-	(4)	6	-	(6)
Total wheeled plant and machinery	7	8	1	25	36	11
Information Technology						
IM delivered renewals	5	5	-	30	21	(9)
Traffic management	-	1	1	2	3	1
Total information technology	5	6	1	32	24	(8)
Property						
MDUs/offices	1	3	2	3	13	10
Commercial estate	1	1	-	3	4	1
Corporate services	-	-	-	-	-	-
Total property	2	4	2	6	17	11
Other renewals						
Asset information strategy	2	2	-	10	12	2
Intelligent infrastructure	1	2	1	1	5	4
Faster isolations	6	3	(3)	9	11	2
LOWS	-	-	-	1	1	-
Small plant	-	1	1	-	3	3
Research and development	-	-	-	-	-	-
Phasing overlay	-	14	14	-	(24)	(24)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	3	-	(3)	40	-	(40)
Other	2	-	(2)	3	-	(3)
West Coast	-	-	-	-	-	-
Total other renewals	14	22	8	64	8	(56)
Total renewals	175	206	31	895	869	(26)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Kent – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 10: Other information, Kent

in £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	13	14	1	65	68	3	8
Access charge supplement Income	(16)	(17)	(1)	(72)	(71)	1	(17)
Net (income)/cost	(3)	(3)	-	(7)	(3)	4	(9)
Schedule 8							
Performance element income	(4)	-	4	(5)	-	5	(1)
Performance element costs	12	-	(12)	95	1	(94)	32
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	8	-	(8)	90	1	(89)	31

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	(2)	(3)	(1)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	-	(1)	(1)
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	1	1	1
Reporters fees	-	-	-
Other industry costs	-	-	-
Network Rail HS1	4	12	4
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	3	8	3

Statement 10: Other information, Kent – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. The slightly lower figure this year is due to different inflation rates being used to calculate the contractual payment due by operators and the inflation rate ORR apply to their PR13 determination. The benefit in the control period to date is a result of a similar factor. Performance element costs are broadly in line with the determination assumed. In the control period to date costs are lower than the regulator expected but this is due to higher average possession costs being offset by deferral of renewals activity requiring possessions (refer to Statement 9a). Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance. The higher average possession costs have resulted in financial underperformance being recognised this control period (refer to Statement 5a). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The higher costs in the control period are also due to external events, such as extreme weather. The most noticeable example is the closure of part of the network following the collapse of Dover sea wall. Costs are higher than the previous year due to delivery of additional renewals requiring possessions. In addition, costs this year included the impact of Storm Emma in February which resulted in number of services being cancelled in light of the snow.

Statement 10: Other information, Kent – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. The number of delays caused by Network Rail infrastructure failures is historically low but congestion has contributed to the average Delay Per Incident has been high. Extra focus has been put on improving this metric as part of the company's strategy and improvements have been made this year but there is still potential for improvement. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of days punctuality and so resulted in significant compensation payments. Costs are lower than the previous year. As noted in the previous year's Regulatory financial statements, there were a number of one-off events which impacted performance, whilst this year there were fewer and less disruptive external events. In addition, there has been investment in improving performance on this part of the network which has paid dividends this year. Although this increases costs elsewhere it does have a benefit to schedule 8 costs and overall train performance.
- (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 compared to the regulatory assumption partly offset by losses on the volume incentive mechanism (see Statement 12). The control period to date position is largely due to the same factors.

Statement 11:

There is no Statement 11 required for Kent

Statement 12: Volume incentives, Kent

in £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	3	0	21	20	0.2%	1.56	pence per passenger train mile
Passenger farebox (millions)	(8)	(2)	892	928	3.1%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	0	0	1.7%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	(1)	0	394	476	2.3%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	(7)	(2)					

The cumulative volume incentive is determined by the following calculation:

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

Where:
A_t = Actual in year quantity
B = 2017-18 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Kent – continued

In £m 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets, mainly due to lower income being earned through the farebox mechanism. Earlier in the control period, the regulatory targets were exceeded, but this has changed in the past two years so the control period to date position is now a loss under the volume incentive.

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

in £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC £m	Total AFV unit	Unit Cost £k/unit	unit	£m	Total AFC £m	Total AFV unit	Unit Cost £k/unit
Track	Conventional plain line Renewal	km	38	24	58	116	500	38	27	52	139	374
	High Output Renewal	km	-	-	-	-	-	3	5	5	3	1,667
	Plain line Refurbishment	km	14	5	22	83	265	11	5	16	55	291
	S&C Renewal/Refurbishment	point ends	78	14	33	270	122	77	17	35	230	152
	Track Drainage	lm	10,480	6	12	25,922	0	8,622	3	9	23,254	0
	Fencing	km	9	1	7	91	77	37	3	9	126	71
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	50	2	7	428	16	180	2	7	345	20
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	52	139	-	-	-	62	133	-	-
Signalling	Full Conventional Resignalling	SEU	1	-	-	1	-	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-	-	-	-	-	-
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-	-	-	-
Civils	Underbridges	m ²	1,085	2	4	1,453	3	6,441	26	37	9,355	4
	Overbridges (incl BG3)	m ²	-	-	-	-	-	704	1	4	704	6
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	520	-	1	770	1	536	2	4	536	7
	Culverts	m ²	-	-	-	-	-	579	3	6	734	8
	Footbridges	m ²	648	2	3	648	5	189	1	2	189	11
	Coastal & Estuarial Defences	m	-	-	-	-	-	1,550	3	11	1,550	7
	Retaining Walls	m ²	-	-	-	-	-	180	-	-	180	-
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	54	6	9	1,675	5	125	6	14	203	69
	EW Drainage	m	2,442	1	4	20,216	0	11,452	1	4	21,975	0
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	11	21	-	-	-	43	82	-	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	2,009	-	-	2,009	-	-	-	-	-	-
	Buildings (FS)	m ²	475	-	1	985	1	140	-	1	316	3
	Platforms (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Canopies (FS)	m ²	1,556	1	6	11,252	1	5,789	1	6	8,566	1
	Train sheds (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m ²	585	2	8	2,485	3	870	3	10	1,745	6
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		-	-	-	-	-	1,560	1	2	13,101	0
	Light Maintenance Depots	m ²	-	-	-	-	-	-	-	-	-	-
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	27	-	1	6,635	0	3,152	2	3	9,475	0
	MDU Buildings	m ²	-	-	-	-	-	-	-	-	-	-
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	3	16	-	-	-	7	22	-	-

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

in £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	1	-	10	36	278	12	3	11	36	306
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	1	-	-	9	-	17	1	5	23	217
	HV cables DC	km	-	-	-	-	-	7	3	9	12	750
	LV cables DC	km	20	2	18	41	439	6	5	18	18	1,000
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	8	2	11	48	229
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	4	-	2	35	57	19	1	2	19	105
	Signalling Power Cables	km	-	-	-	-	-	1	1	1	1	1,000
	Signalling Supply Points	No.	-	-	-	-	-	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
Total			-	2	30	-	-	-	16	57	-	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-	-	-	-

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

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – In Conventional Plan Line Renewal there was an increase in the unit cost in 2017-18 compared to the prior year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. In S&C Renewal category has also seen a fall in the unit cost. This is partly to do with the fact that in the prior year there was an expensive job at Chislehurst that didn't deliver many volumes and thus dragged the unit rate upwards.
- (3) Civils – In Tunnels there was a large decrease in the unit cost. However in the current year there was only one tunnel renewal at Sevenoaks. With such a small sample size it is not possible to do any useful variance analysis. There was a decrease in the unit cost in the Footbridges category. In the prior year there were only two expensive jobs at Gipsy Road and Dover so it is difficult to compare this to the current year where there were many jobs. In Earthworks there has been a large decrease in the unit rate. However the Crowhurst project alone in the current year delivered seven times more volumes than all of the projects in 2016-17. This project massively skews the data and makes any analysis meaningless.

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

In £m 2017-18 prices unless stated

- (4) Buildings – There has been a decrease in the unit cost of Franchised Station Footbridges. Footbridges in stations are completely bespoke so the unit cost of a bridge would depend on the size, design and what material the bridge is made out of. Therefore it is not useful to compare the unit cost between years on this asset.
- (5) Electrical Power & Fixed Plant – There has been a decrease in the unit cost of Point Heaters. There is only one project in this category which has run over both years. The cost has stayed the same but in the current year more volumes than were originally forecast in the prior year were delivered. It is the same story in LV Cables DC. There have been extra volumes delivered in the financial year at Brixton.

Statement 1: Summary regulatory financial performance, London North East

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	785	795	(10)	3,135	3,122	13	787
Fixed Income	66	67	(1)	246	244	2	56
Variable Income	183	195	(12)	740	746	(6)	186
Other Single Till Income	115	118	(3)	447	440	7	120
Opex memorandum account	6	-	6	22	-	22	4
Total Income	1,155	1,175	(20)	4,590	4,552	38	1,153
Operating expenditure							
Network operations	93	70	(23)	357	313	(44)	85
Support costs	62	71	9	269	306	37	62
Traction electricity, industry costs and rates	97	96	(1)	358	348	(10)	89
Network maintenance	207	161	(46)	774	677	(97)	217
Schedule 4	38	43	5	120	162	42	23
Schedule 8	15	1	(14)	27	4	(23)	13
Total operating expenditure	512	442	(70)	1,905	1,810	(95)	489
Capital expenditure							
Renewals	358	441	83	1,876	1,842	(34)	430
PR13 enhancement expenditure	173	353	180	702	1,049	347	132
Non PR13 enhancement expenditure	16	-	(16)	24	-	(24)	(14)
Total capital expenditure	547	794	247	2,602	2,891	289	548
Other expenditure							
Financing costs	339	352	13	1,128	1,259	131	289
Corporation tax (received)/paid	-	-	-	-	1	1	1
Total other expenditure	339	352	13	1,128	1,260	132	290
Total expenditure	1,398	1,588	190	5,635	5,961	326	1,327

Statement 1: Summary regulatory financial performance, London North East – continued

In £m 2017-18 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 in the other statements of this document.
- (2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly lower than determination due to Network Rail differences between inflation rates used to calculate fixed income payable by operators and the rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these discrepancies which has delivered the favourable income in the control period to date. This is discussed in more detail in Statement 6a. Income is higher than the previous year which is mostly due to changes in the way the company is funded.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target with the lower electricity being the overwhelming contributor which has offset additional Capacity charge income earned. Income is broadly in line with the previous year. Variable income is set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is slightly lower than the determination assumption as lower freight income has been largely offset by additional services offered to operators and extra property sales. Income for the control period to date is higher than expected, as lower traction electricity income has been offset by higher property rental income and revenue from extra services provided to operators. These variances are set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes amounts penalties under the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This year, the positive amount reported is largely due to costs recognised on the volume incentive due to lower demand for freight offset by higher Business rates costs. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, London North East – continued

In £m 2017-18 prices unless stated

- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are in line with the previous year. Support costs are discussed in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are in line with the determination as lower electricity costs (offset by lower recoveries of these costs from operators through income) have been offset by higher Business rates and British Transport Police costs. The higher costs in the control period to date are also due to these factors. Costs are higher than the previous year as a result of increased Business rates following a widely-publicised increase in business rates across the country. Traction electricity, industry costs are discussed 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. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are lower than the previous year as less reactive maintenance works have been required. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination as higher average costs of possessions has been alleviated by deferral of renewals activity requiring network possessions. Costs for the control period to date are lower than the regulator expected which includes savings from fewer late changes (and so more expensive) changes to possessions plans. Costs this year are higher than the previous year due to higher average costs of possessions and the disruptive impact of Storm Emma. Schedule 4 costs are discussed 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. Increased network traffic, infrastructure failures and some one-off incidents, notably the snow that Storm Emma brought, contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year mainly due to ever-tightening benchmarks. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to net deferrals of activity partially offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is broadly in line with the determination but this reflects deferral of activity offset by higher like-for-like costs. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes but mainly due to North Trans Pennine Electrification, which is also the largest contributor to the control period to date variance. These variances are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, London North East – continued

In £m 2017-18 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 so the higher investment in the current year and the control period to date is axiomatic. Expenditure is higher than the previous year following additional projects requested by DfT to improve the railway network. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are lower than the determination due to lower average levels of net debt during the year. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, London North East

In £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	9,080	9,162	(82)
Indexation to 2016-17 prices	736	742	(6)
Opening RAB for the year (2016-17 prices)	9,816	9,904	(88)
Indexation for the year	381	384	(3)
Opening RAB (2017-18 prices)	10,197	10,288	(91)
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	317	441	(124)
PR13 enhancements	152	369	(217)
Non-PR13 enhancements	16	-	16
Total enhancements	168	369	(201)
Amortisation	(497)	(497)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2018	10,185	10,601	(416)

RAB Regulatory financial position - cumulative, London North East

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	9,380	9,972	10,178	10,197	9,380
Adjustments for the actual capital expenditure outturn in CP4	268	-	-	-	268
Renewals	493	542	388	317	1,740
PR13 enhancements	268	118	121	152	659
Non-PR13 enhancements	19	2	(13)	16	24
Total enhancements	287	120	108	168	683
Amortisation	(456)	(456)	(477)	(497)	(1,886)
Adjustments for under-delivery of regulatory outputs	-	-	-	-	-
Closing RAB	9,972	10,178	10,197	10,185	10,185

Statement 2a: RAB - Regulatory financial position, London North East – continued

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (3) The opening RAB for the year is lower than the regulator anticipated in its' determination. At the start of the control period the RAB was higher than the regulator assumed, mostly due to additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13. However, since then less investment in renewals and enhancements has occurred compared to the regulatory expectation 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 efficient overspends (the value of which cannot all be logged up to the RAB) as well as re-profiling activity to the final year of the control period and beyond. 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 is mainly due to lower investment in North Trans Pennine electrification compared to the regulatory expectation.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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. Investment this year was mainly in the Tram Train project.
- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

Statement 2a: RAB - Regulatory financial position, London North East – continued

In £m 2017-18 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	447	490	463	441	1,841
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	17	-	-	-	17
Capitalised financing on CP4 deferrals	-	1	1	1	3
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (renewals)	464	491	464	442	1,861
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(34)	(57)	(209)	(240)	(540)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(4)	(9)	(19)	(33)
Adjustments for efficient overspend	72	132	173	157	534
Capitalised financing on efficient overspend	2	6	15	21	44
25% retention of efficient overspend	(18)	(33)	(46)	(39)	(136)
Capitalised financing on efficient overspend 25% retention	-	(1)	(3)	(5)	(9)
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	7	2	(1)	17
Capitalised financing on efficient overspend through spend to save framework	-	2	1	-	3
Retention of efficient overspend through spend to save framework	(2)	(1)	-	1	(2)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other adjustments	1	-	-	-	1
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	493	542	388	317	1,740
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	(1)	(5)	(4)	2	(8)
Adjustment for 25% retention of efficient overspend	21	34	46	38	139
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	3	1	-	1	5
Total actual renewals expenditure (see statement 9)	516	572	430	358	1,876

Statement 2b: RAB - reconciliation of expenditure, London North East - continued

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	307	328	258	369	1,262
Adjustments to the PR13 determination	-	-	-	-	-
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	91	(90)	-	-	1
Capitalised financing on CP4 deferrals	2	2	-	-	4
Baseline adjustments	-	(253)	56	(16)	(213)
Capitalised financing on Baseline adjustments	-	(5)	(9)	(9)	(23)
Adjustments to DfT funding	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (enhancements)	400	(18)	305	344	1,031
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(133)	136	(182)	(172)	(351)
Capitalised financing on acceleration / (deferrals) of expenditure	(3)	(3)	(3)	(12)	(21)
Adjustments for efficient overspend / (underspend)	4	(4)	1	(12)	(11)
Capitalised financing on efficient overspend / (underspend)	-	-	-	-	-
25% retention of efficient overspend / (underspend)	(1)	1	1	2	3
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	-	9	(1)	4	12
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	(2)	-	(2)	(4)
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	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	268	118	121	152	659
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	19	1	(14)	16	22
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	-	-	-	(1)	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	1	1	1	3
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Other adjustments	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	19	2	(13)	16	24
Total enhancements (added to the RAB - see statement 2a)	287	120	108	168	683
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	1	5	12	20	38
Adjustment for 25% retention of efficient overspend	1	1	(1)	1	2
Other Adjustments	2	-	-	-	2
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	37	61	62	66	226
Other adjustments	1	-	-	-	1
Total actual enhancement expenditure (see statement 3)	329	187	181	255	952

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond which 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 (June 2017), 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 June 2017) 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 with notable contributions from Track, Signalling and Civils projects. 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.

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure. The reduction reported in the current year reflects decreased planned expenditure in this category across the whole control period compared to planned levels of investment included in Business Plans earlier in the control period.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. The increase reported in the current year reflects the reduced expenditure on such schemes compared to earlier plans as noted above.
- (9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.
- (10) 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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, 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 first year of the control period were reversed in the second year of the control period.

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (11) 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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink).
- (12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programmes have been reprofiled into CP6 and beyond.
- (13) Enhancements – Adjustments for efficient underspend – under the terms of the Regulatory Accounting Guidelines (June 2017), Network Rail generally retains 25 per cent of any efficient underspend. This means that 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 saving, with notable contributions from the IEP programme. Efficient underspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (14) Enhancements - 25% retention of efficient underspend – following on from the above comment, this heading represents the 25 per cent of the underspend that Network Rail can log up to the RAB.
- (15) 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).
- (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 programme 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, London North East – continued

In £m 2017-18 prices unless stated

- (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 (June 2017) 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 was reversed in 2015/16 so that there is no impact on the RAB for the control period to date. No expenditure in this category occurred in the current year.
- (18) Enhancements – retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating additional income.
- (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 in the current year relates to some minor projects undertaken in the route this year to improve the railway network in London North East. As there is no funding available for these schemes, this is treated as financial underperformance (refer to Statement 5).

Statement 3: Analysis of enhancement capital expenditure, London North East

In £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	22	63	41	78	143	65
Stations - National Station Improvement Programme (NSIP)	-	4	4	5	7	2
Stations - Access for All (AfA)	4	2	(2)	11	6	(5)
Development	4	(4)	(8)	15	15	-
Level crossing safety	2	1	(1)	4	8	4
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	2	(16)	(18)	13	13	-
Total funds	34	50	16	126	192	66
Committed projects						
Northern Hub	6	10	4	14	16	2
IEP Programme	59	64	5	192	275	83
North Trans Pennine electrification east	81	188	107	159	323	164
Micklefield - Selby electrification	-	-	-	-	-	-
Thameslink	-	4	4	71	47	(24)
Total committed projects	146	266	120	436	661	225
Named schemes						
The Electric Spine						
DfT Sofa Amount	-	(1)	(1)	2	-	(2)
Total Electric Spine projects	-	(1)	(1)	2	-	(2)
Yorkshire						
Huddersfield station capacity improvement	-	(1)	(1)	(1)	-	1
Total Yorkshire Projects	-	(1)	(1)	(1)	-	1
HLOS capacity metric schemes						
Leeds and Sheffield Capacity	-	(2)	(2)	-	-	-
Stevenage and Gordon Hill turnbacks	-	3	3	3	8	5
Bradford Mill Lane capacity	-	2	2	-	4	4
Leeds station capacity	-	(2)	(2)	-	-	-
LNE routes traction power supply upgrade	6	24	18	7	33	26
Total HLOS capacity metric schemes	6	25	19	10	45	35
CP4 Project Rollovers						
Capacity relief to the ECML	3	1	(2)	87	82	(5)
North Doncaster Chord	-	-	-	-	-	-
East Coast mainline overhead electrification	-	-	-	-	-	-
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	3	1	(2)	87	82	(5)
Other projects						
Seven day railway projects	-	3	3	23	22	(1)
ERTMS Cab fitment	1	9	8	21	39	18
R&D allowance	-	-	-	2	3	1
Depots and stabling	-	-	-	-	-	-
Income generating property schemes	-	1	1	13	5	(8)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	(17)	-	17	(17)	-	17
Total other projects	(16)	13	29	42	69	27
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	173	353	180	702	1,049	347

Statement 3: Analysis of enhancement capital expenditure, London North East - continued

In £m 2017-18 prices unless stated

	Actual	2017-18 Baseline	Difference	Actual	Cumulative Baseline	Difference
B) Investments not included in PR13						
Government sponsored schemes						
OCSLNE SCPF Newcastle Station	-	-	-	7	-	(7)
Tram Train Project	15	-	(15)	8	-	(8)
Other government sponsored schemes	-	-	-	(1)	-	1
Total Government sponsored schemes	15	-	(15)	14	-	(14)
Network Rail spend to save schemes						
Other spend to save schemes	-	-	-	5	-	(5)
Total Network Rail spend to save schemes	-	-	-	5	-	(5)
Total Schemes promoted by third parties	-	-	-	-	-	-
Discretionary Investment	1	-	(1)	5	-	(5)
Total non PR13 enhancement expenditure	16	-	(16)	24	-	(24)
Total Network Rail funded enhancements (see Statement 1)	189	353	164	726	1,049	323
Third Party PAYG	66	-	(66)	226	-	(226)
Total enhancements (see statement 2b)	255	353	98	952	1,049	97

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 Thameslink). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £189m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£255m) less the PAYGO schemes funded by third parties (£66m).
- (5) Investment expenditure this year was higher than the previous year. This was a net position across a number of projects but with large contributions from IEP Programme delivery and Tram Train project.
- (6) 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 review) 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. Overall, expenditure in this category this year was lower than the baseline, continuing the trend of earlier years of the control period. Noteworthy variances between expenditure in the year and the baseline are set out below:

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

In £m 2017-18 prices unless stated

- a. East Coast connectivity – this fund is used to improve capacity and reduce journey times on the East Coast main line. Expenditure in the current year is lower than the baseline as some of the activity on this fund has now been deferred from the current control period to CP6. This includes projects at Werrington (grade separated access to the GN/ GE line) and York North Throat.
 - b. Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure was minimal this year, which offsets some of the overspends in earlier years 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. Investment in the control period to date has been higher than planned as additional schemes have been identified. This year's major projects were delivered at Finsbury Park.
 - d. Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is in higher than the baseline which includes an adjustment through Change Control to the funding available in this route. This has helped bring the control period to date investment in line with the target.
 - e. Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year is slightly higher than the Henday baseline but is still behind for the control period to date largely as a result of contractor disputes leading to delay in delivery in earlier years. Also, fewer schemes with a significantly robust business case have been identified this control period. Whilst extra investment is planned in the final year of the control period, there is still expected to be an underspend overall on this fund this year.
 - f. 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. Although expenditure is higher than the baseline this year (including an adjustment to the baseline to reflect the funding available in this route) expenditure in the control period to date is in line with the Hendy target.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is lower the baseline. North Trans Pennine electrification is the main driver of these variances. The notable variances between expenditure and the baseline are set out below:
- a. Thameslink - The objective of this pan-operational route programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the control period to date is higher than the baseline. About half of this variance is due to higher underlying programme costs and 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). The remaining variance is due to differences in the schedule of delivery in this operational route compared to the original plan.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

In £m 2017-18 prices unless stated

- 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. Costs in the year are lower than the baseline as work had been delivered earlier in the control period. The CP5 to date investment is now broadly in line with the Hendy baseline.
 - c. 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 in the year is lower than the baseline, compounding the impact of underspends earlier in the control period. As noted in last year's Regulatory Financial Statements, activity has been re-profiling into future years following contractor and resource difficulties as well as technology and changes to project and output specifications. Changes to milestones have been agreed with DfT for elements of the East Coast scheme. In addition, there are some reductions in programme cost which have resulted in financial outperformance being recognised this year (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. Investment in the current year is lower than the baseline, adding to delays earlier in the control period. Delays have been caused by re-organisation of various projects under a single programme team to improve accountability and planning synergies. Delays have also been caused by similar factors to other electrification programmes, including: constrained supply chain, technical problems with more complex layouts and delays connecting to power sources.
- (8) PR13 funded schemes – named schemes - there is limited activity in this category. Huddersfield station capacity improvement – in response to customer demand, platform lengths at Huddersfield station are being increased to accommodate longer trains. Expenditure in this control period is expected to be minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline, mainly due to lower investment in London North East routes traction power supply upgrade. The same programme accounts for the majority of the underspend in the control period to date. The following notable variances between expenditure and baselines are set out below:
- a. Leeds and Sheffield capacity - this project delivers infrastructure interventions required to help facilitate the operational plans developed by train operators to meet the CP5 HLOS capacity metrics. Investment in the control period is expected to be minimal, which is reflected in the Hendy target, as the projects outputs have been deferred until CP6.
 - b. Stevenage and Gordon Hill turnbacks – this project aims to include a terminating platform bay at Gordon Hill. The Stevenage element of the programme has been de-scoped as part of the agreement with DfT and will be revisited in CP6. The reduction in expenditure compared to the Hendy target reflects this postponement.
 - c. Bradford Mill Lane capacity – this project aims to deliver infrastructure improvements to provide parallel moves at Bradford Interchange to/from Leeds and Halifax. Expenditure in this control period is expected to be minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

In £m 2017-18 prices unless stated

- d. Leeds station capacity – this project aims to deliver additional capacity at Leeds Station to support the operation of longer trains and additional services on a number of routes. Expenditure in this control period is expected to be minimal as the outputs of the programme are being delivered through the North Trans Pennine Electrification East category.
 - e. 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. Expenditure has been lower in the current year and the control period to date owing to restrictions in suitable resource and access. Delivery of milestones have been re-phased and agreed with DfT.
- (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. There is only activity on one programme in this category: Capacity relief to the ECML (East Coast Main Line) – a scheme that 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 higher than the baseline due to some unexpected costs incurred in finishing the project, including flooding arising adjacent to where the works were being delivered. As a result, financial underperformance has been recognised this control period (refer to Statement 5c).
- (11) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a capital grant from DfT in the year, an element of which was allocated to each operational route, which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Notable variances to the baseline include:
- a. Seven day railway projects – expenditure in the year is lower than the baseline, bringing the control period to date position in line with the Hendy target. There was minimal activity on this programme in the current year as it has now been substantially completed.
 - 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 this year is behind the baseline, compounding delays to the programme in earlier years of the control period. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs and how it connects to the Digital Railway strategy.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

In £m 2017-18 prices unless stated

- 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 6a). 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. There was no expenditure in the current year but investment in the control period to date has been higher than the regulator's target. Expenditure in the control period to date is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns.
 - d. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme in England & Wales, an element of which has been apportioned to each of the routes. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB (refer to Statement 2a).
- (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 2a) or recognised as financial performance (refer to Statement 5c) 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 programmes in this category are Tram Train project – a project that aims to provide infrastructure capability enhancements to enable the pilot operation of Tram Train vehicles in the UK.
 - b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.
 - c. Discretionary investment – expenditure in the current year relates to various projects that the management team in London North East have decided to undertake to deliver improvements to the railway in that route, but for which there is no funding allowance. As these projects were not funded through the determination or subsequent Hendy review, they resulted in financial underperformance being recognised (refer to Statement 5c).
 - d. PAYGO – as noted above, this year the DfT made a contribution to the England & Wales enhancement portfolio this year, an element of which is allocated to each of the operational routes, reducing the amount that is added to the RAB in the above categories and increasing expenditure in this area. In addition, there was investment in IEP Doncaster Depot power, Hitachi EMCL Depot and Lincoln Eastern bypass this 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 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	6,655	7,022	367	5,886	5,746	(140)
Income						
Grant income	(785)	(795)	(10)	(3,006)	(2,998)	8
Fixed charges	(66)	(67)	(1)	(235)	(234)	1
Variable charges	(183)	(195)	(12)	(709)	(717)	(8)
Other single till income	(115)	(118)	(3)	(429)	(425)	4
Total income	(1,149)	(1,175)	(26)	(4,379)	(4,374)	5
Expenditure						
Network operations	93	70	(23)	341	297	(44)
Support costs	62	71	9	258	292	34
Traction electricity, industry costs and rates	97	96	(1)	344	339	(5)
Network maintenance	207	161	(46)	746	648	(98)
Schedule 4	38	43	5	114	155	41
Schedule 8	15	1	(14)	26	4	(22)
Renewals	358	441	83	1,791	1,769	(22)
PR13 enhancement	173	369	196	669	1,214	545
Non-PR13 enhancement	16	-	(16)	21	-	(21)
Total expenditure	1,059	1,252	193	4,310	4,718	408
Financing						
Interest expenditure on nominal debt - FIM covered	52	120	68	260	412	152
Interest expenditure on index linked debt - FIM covered	35	47	12	154	182	28
Expenditure on the FIM	41	76	35	205	283	78
Interest expenditure on government borrowing	114	-	(114)	241	-	(241)
Interest on cash balances held by Network Rail	(1)	(4)	(3)	(6)	(12)	(6)
Total interest costs	241	239	(2)	854	865	11
Accretion on index linked debt - FIM covered	98	113	15	244	394	150
Total financing costs	339	352	13	1,098	1,259	161
Corporation tax	-	-	-	-	1	1
Other	66	-	(66)	55	101	46
Movement in net debt	315	429	114	1,084	1,705	621
Closing net debt	6,970	7,451	481	6,970	7,451	481

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	1.11	0.96	0.85	0.59	0.99
FFO/interest	2.95	2.94	2.65	2.65	3.07
Net debt/RAB (gearing)	67.8%	67.6%	67.8%	68.4%	70.3%
FFO/debt	10.4%	9.5%	9.6%	9.2%	9.8%
RCF/debt	7.1%	6.5%	6.4%	5.7%	6.6%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.4%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	n/a

Statement 4: Net debt and financial ratios, London North East – continued

In £m nominal unless otherwise stated

Note:

- (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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for London North East as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to London North East 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) Net debt attributable to London North East at 31 March 2018 is £0.5bn lower than the regulator assumed. At the start of the control period Network Rail's debt was higher than the regulator's assumption. Since then, additional net operating costs have been more than offset by lower investment in enhancements and by interest cost savings.
- (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 other 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 as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, London North East – continued

In £m nominal unless otherwise stated

(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 made 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 year. This is largely due to lower average levels of net debt in the year. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are marginally higher than the previous year which, *ceteris paribus*, is expected as the interest expense on index-linked debt in the previous year is added to the principle for future years and there are no scheduled repayments of this type of debt in the current control period. Additionally, RPI this year has been higher than the previous year, thus increasing the interest expense recognised in 2017/18.
- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year.

Statement 4: Net debt and financial ratios, London North East – continued

In £m nominal unless otherwise stated

- 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) which offsets higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of funding made available during the course of construction on enhancement projects.

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:

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail to barely cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging 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 Network operations and Maintenance costs and lower turnover partly offset by savings in Support costs as described elsewhere in these accounts. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination are, therefore, the same as the reasons outlined in the AICR comment above.

Statement 4: Net debt and financial ratios, London North East – continued

In £m nominal unless otherwise stated

- (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 2017/18 is lower than the regulatory comparative which is mainly due to lower overall capital spending, notably for enhancement programmes. This reduced spend is due to reductions in the enhancement programme that were identified as part of the Hendy review and subsequent deferrals of electrification programmes. Capital underspends benefit the ratio as both the debt and the RAB do not increase and as the total RAB value exceeds the total debt value, reducing both elements of the equation by the same absolute amount will result in a lower ratio. This is partly offset by efficient capital overspends which result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. Extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements and have also helped reduce the impact of the enhancement deferrals. The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected.
- (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 adverse variance to the regulator’s assumption is due to higher operating costs than planned, notably Maintenance, Network operations and Schedule 8 costs. The decline in the ratio this 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, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, London North East

In £m 2017-18 prices unless stated

2017-18								
	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 $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	785	795	(10)	(10)	-	-	-	-
Fixed Income	66	67	(1)	(1)	-	-	-	-
Variable Income	147	146	1	-	-	-	1	1
Other Single Till Income	115	118	(3)	-	-	-	(3)	(3)
Opex memorandum account	6	-	6	12	-	-	(6)	(6)
Total Income	1,119	1,126	(7)	1	-	-	(8)	(8)
Expenditure								
Network operations	93	70	(23)	-	-	-	(23)	(23)
Support costs	62	71	9	1	-	-	8	8
Industry costs and rates	61	46	(15)	(12)	-	-	(3)	(3)
Traction electricity	-	1	1	-	-	-	1	1
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	207	161	(46)	-	(10)	-	(36)	(36)
Schedule 4 costs	38	43	5	-	19	-	(14)	(14)
Schedule 8 costs	15	1	(14)	-	-	-	(14)	(14)
Renewals	358	441	83	2	239	-	(158)	(40)
PR13 Enhancements	173	353	180	-	172	-	8	-
Non PR13 Enhancements	16	-	(16)	-	(15)	-	(1)	(1)
Financing Costs	339	352	13	13	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,362	1,539	177	4	405	-	(232)	(122)
Total:			170	5	405	-	(240)	(130)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(130)
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 milestones for asset management - data quality								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								-
Total financial out / (under) performance to be recognised								(130)

Statement 5a: Total financial performance, London North East - continued

In £m 2017-18 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	3,135	3,122	13	13	-	-	-	-
Fixed Income	246	244	2	2	-	-	-	-
Variable Income	597	577	20	-	-	-	20	20
Other Single Till Income	447	440	7	-	-	-	7	7
Opex memorandum account	22	-	22	28	-	-	(6)	(6)
Total Income	4,447	4,383	64	43	-	-	21	21
Expenditure								
Network operations	357	313	(44)	-	-	-	(44)	(44)
Support costs	269	306	37	7	-	-	30	30
Industry costs and rates	209	173	(36)	(29)	-	-	(7)	(7)
Traction electricity	4	4	-	-	-	-	-	-
Reporter's fees	2	2	-	-	-	-	-	-
Network maintenance	774	677	(97)	-	(22)	-	(75)	(75)
Schedule 4 costs	120	162	42	-	34	-	8	8
Schedule 8 costs	27	4	(23)	-	-	-	(23)	(23)
Renewals	1,876	1,842	(34)	1	501	-	(536)	(135)
PR13 Enhancements	702	1,049	347	-	344	-	3	2
Non PR13 Enhancements	24	-	(24)	-	(23)	-	(1)	(1)
Financing Costs	1,128	1,259	131	131	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	1	1	-	1	-	-	-
Total Expenditure	5,492	5,792	300	110	835	-	(645)	(245)
Total:			364	153	835	-	(624)	(224)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(224)
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)								(2)
Missed milestones for asset management - data quality								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								(6)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(20)
Total financial out / (under) performance to be recognised								(244)

Statement 5a: Total financial performance, London North East - continued

In £m 2017-18 prices unless stated

	2017-18			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	(36)	(49)	- 13	(143)	(169)	- 26
Total variance not included in total	(36)	(49)	- 13	(143)	(169)	- 26
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Crossrail finance charge	-	-	-	-	-	-
Total variance not included in total	-	-	-	-	-	-
Breakdown of variance not included in total financial performance - Support costs:						
Spend to save adjustment	1	-	- 1	2	-	- 2
Release of CP4 long distance financial penalty provision	-	-	-	5	-	- 5
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	36	49	- (13)	143	169	- (26)
Total variance not included in total	36	49	- (13)	143	169	- (26)
Breakdown of variance not included in total financial performance - Renewals:						
Investment of CP4 long distance	2	-	- 2	1	-	- 1
Total variance not included in total financial performance:	2	-	- 2	1	-	- 1

Statement 5a: Total financial performance, London North East – continued

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 assess 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 in the year and the control period to date 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.

Statement 5a: Total financial performance, London North East – continued

In £m 2017-18 prices unless stated

- (3) Variable income – across the control period to date, Network Rail has achieved outperformance mostly as a result of increased capacity charges which has been partly offset by lower variable track access income. In the current year, minor financial underperformance has been recognised as growth has been unable to keep up with increases in regulatory targets. 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. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – this year, financial underperformance has been reported, mainly due to lower freight growth than the regulator estimated. Structural changes to the industry (including legislative changes around coal transportation) have resulted in reduced demand. The determination also assumed that there would be significant growth in biomass fuel transportation and whilst there has been development of this market it has not been at the suggested level. The outperformance recognised in Other single till income in the control period to date is due to extra property rental income and revenue from offering services to operators at stations and depots being partly offset by the aforementioned issues with freight revenue. Other single till income is set out in more detail in Statement 6a.
- (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 and in the control period to date. Slower freight growth owing structural changes in the industry have resulted in financial underperformance being recognised this year and the control period to date. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, London North East – continued

In £m 2017-18 prices unless stated

- (6) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination.
- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business, continuing the trend of earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D.

Statement 5a: Total financial performance, London North East – continued

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- (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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which brings the control period to date position in line with the regulator's expectation.
- (10) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.

Statement 5a: Total financial performance, London North East – continued

In £m 2017-18 prices unless stated

- (11) Schedule 4 costs – costs are lower than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The disruptive impact of the snow that Storm Emma brought in February has also impacted costs this year. Costs in the control period to date are lower than the regulatory assumption. This is a combination of undertaking less renewals activity and from cheaper possession costs earlier in the control period which has resulted in the recognition of financial underperformance.
- (12) Schedule 8 costs – costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included damage to overhead lines whilst the issue of network trespass continues to be challenging. London North East continues to invest in overhead resilience, trespass and suicide mitigation measures to combat these issues.

Statement 5a: Total financial performance, London North East – continued

In £m 2017-18 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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (14) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this year from IEP programme, which also drives the variance in the control period to date. Individual programme variances are 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). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (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 higher than the regulator expected mainly due to higher levels of average net debt during the year compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

Statement 5a: Total financial performance, London North East – continued

In £m 2017-18 prices unless stated

- (17) Corporation tax – income tax payments are lower than the regulator expected in the control period to date. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed at the end of the control period when a full picture is available.

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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.
- (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. Whilst targets for operators in London North East were achieved in 2017/18, they were missed in earlier years 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. Whilst targets for operators in London North East were achieved in 2017/18, they were missed for earlier years 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.
- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.

Statement 5b: Total financial performance - renewals variance analysis, London North East

In £m 2017-18 prices unless stated

2017-18								
	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	2	46	(44)	(11)		(11)	-	-
Signalling	31	83	(52)	(13)		(13)	-	-
Civils	5	45	(40)	(10)		(9)	(1)	-
Buildings	4	16	(12)	(3)		(1)	(2)	-
Electrical power and fixed plant	(4)	4	(8)	(2)		(2)	-	-
Telecoms	(2)	(2)	-	-		-	-	-
Wheeled plant and machinery	10	10	-	-		-	-	-
IT	4	4	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	33	35	(2)	(1)		(1)	-	-
Total	83	241	(158)	(40)		(37)	(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	(145)	111	(256)	(64)		(64)	-	-
Signalling	182	310	(128)	(32)		(31)	(1)	-
Civils	(46)	50	(96)	(24)		(19)	(5)	-
Buildings	7	19	(12)	(3)		-	(3)	-
Electrical power and fixed plant	(19)	17	(36)	(9)		(7)	(2)	-
Telecoms	-	4	(4)	(1)		-	(1)	-
Wheeled plant and machinery	36	36	-	-		-	-	-
IT	(18)	(18)	-	-		-	-	-
Property	(2)	(2)	-	-		-	-	-
Other renewals	(29)	(25)	(4)	(2)		-	(2)	-
Total	(34)	502	(536)	(135)		(121)	(14)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

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, continuing the trend from the previous years on the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

In £m 2017-18 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Approximately one-third of this was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The practical deliveries of using High Output delivery methods resulted in London North East electing to minimise its use of this delivery method in 2017/18. However, there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which all contributed to the financial underperformance this year. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year, continuing the pattern of earlier years of the control period, mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. 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 has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

In £m 2017-18 prices unless stated

- (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. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents.
- (5) Buildings – financial underperformance has been reported this year, resulting in underperformance being recognised for the control period to date. 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. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Additional scope has been delivered as part of the London North East's efforts to combat network trespass and suicide as well as due to worse than expected asset condition, most notably timber platforms and at Worksop footbridge.
- (6) Electrical power and fixed plant – as in previous years of the control period, financial underperformance has been reported for this asset category. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. 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. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. Extra scope has been required in light of a higher number of overhead line damage caused by external events.

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

In £m 2017-18 prices unless stated

(7) Other – this is made up of a number of different categories including the following:

- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
- b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.
- c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constraints the activities required to build capacity for CP6 and beyond is now funded through renewals.
- d. CP4 rollover: 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. The underperformance recognised in the control period to date includes notable contributions from FTN.

Statement 5c: Total financial performance - enhancement variance analysis, London North East

In £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
IEP Programme	5	(15)	-	20	5
Thameslink	4	8	-	(4)	(2)
Northern Hub	4	5	-	(1)	(1)
Seven day railway projects	3	3	-	-	-
Capacity relief to the ECML	(2)	1	-	(3)	(1)
Other Enhancements	150	155	-	(5)	(2)
Total	164	157	-	7	(1)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
IEP Programme	83	59	-	24	6
Thameslink	(24)	(12)	-	(12)	(2)
Northern Hub	2	4	-	(2)	-
Seven day railway projects	(1)	(3)	-	2	-
Capacity relief to the ECML	(5)	4	-	(9)	(2)
Other Enhancements	268	269	-	(1)	(1)
Total	323	321	-	2	1

Statement 5c: Total financial performance - enhancement variance analysis, London North East – continued

In £m 2017-18 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 and so 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 their 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 incoming 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). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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 expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. 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 overspend. The size and complex nature of this programme means that there are a number of risks which need to be successfully managed to deliver the remainder of the programme within the latest forecast.

Statement 5c: Total financial performance - enhancement variance analysis, London North East – continued

In £m 2017-18 prices unless stated

- (2) IEP programme – the total expected costs for the programme are lower than the Hendy baseline which has resulted in recognition of financial outperformance. Savings this year have arisen from: simplifying layout at Newcastle which has reduced the complexity and so cost of the works, substituting contractor delivery with underutilised local works delivery team for certain parts of the programme, lower tender prices than expected on electrification boosters and implementing alternative platform designs compared to the original plan.
- (3) Capacity relief to the ECML – costs are expected to be higher than the Hendy baseline. This includes: extra costs arising from new scope to provide step free access at Spalding station, extra re-railing delivered and negotiations with landlords for site access.
- (4) 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. In addition, minor financial performance variances are captured through this heading.

Statement 5d: Total financial performance - REBS performance, London North East

In £m 2017-18 prices unless stated

	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Cumulative to 2017-18 Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	184	215	(31)	-	-	-	(31)
Capacity charge	334	308	26	-	-	-	26
Electricity asset utilisation charge	11	11	-	-	-	-	-
Property income	135	121	14	-	-	-	14
Expenditure	-	-	-	-	-	-	-
Network operations	357	299	(58)	-	-	-	(58)
Support costs	269	308	39	-	4	-	35
RSSB and BT Police	62	54	(8)	-	-	-	(8)
Network maintenance	774	692	(82)	(18)	-	-	(64)
Schedule 4 costs	120	154	34	26	-	-	8
Schedule 8 costs	27	-	(27)	-	-	-	(27)
Renewals	1,876	1,811	(65)	471	-	(401)	(135)
Total REBS performance			(158)	479	4	(401)	(240)
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)							(2)
Missed milestones for asset management - data quality							-
Missed ORBIS milestones							(6)
Total adjustment for under delivery of outputs and reduced sustainability							(20)
Cumulative performance to end of 2017-18							(260)
Less cumulative outperformance recognised up to the end of 2016-17							(136)
Net REBS performance for 2017-18							(124)

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 East – continued

In £m 2017-18 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	785	795	(10)	3,135	3,122	13	787
Franchised track access income							
Fixed charges	66	67	(1)	246	244	2	56
Variable charges							
Variable usage charge	28	32	(4)	117	125	(8)	29
Traction electricity charges	36	49	(13)	143	169	(26)	35
Electrification asset usage charge	3	3	-	11	11	-	4
Capacity charge	80	75	5	325	298	27	81
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	36	36	-	144	143	1	37
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	183	195	(12)	740	746	(6)	186
Total franchised track access income	249	262	(13)	986	990	(4)	242
Total franchised track access and grant income	1,034	1,057	(23)	4,121	4,112	9	1,029
Other single till income							
Property income	40	35	5	143	128	15	44
Freight income	16	29	(13)	76	97	(21)	15
Open access income	13	12	1	51	48	3	13
Stations income	32	30	2	128	121	7	31
Facility and financing charges	1	3	(2)	4	11	(7)	1
Depots Income	12	8	4	41	33	8	15
Other income	1	1	-	4	2	2	1
Total other single till income	115	118	(3)	447	440	7	120
Total income	1,149	1,175	(26)	4,568	4,552	16	1,149

Statement 6a: Analysis of income, London North East – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower government grants (arising from lower inflation) and lower freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned from offering additional services to operators and extra property sales. Income for the control period to date is lower than the regulatory target due to lower traction electricity income and freight revenue (for the reasons noted above) offset by extra rental income as well as providing more train paths and facilities to operators.

Statement 6a: Analysis of income, London North East – continued

In £m 2017-18 prices unless stated

- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only 10.96 per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table.

- (4) Fixed charges – fixed charge income was slightly lower than the determination this year. This is attributable 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 on Grant income. 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 for the control period to date are higher than the regulator expected due to a combination of inflationary benefits as described above in the comment on Grant income. Fixed charges are higher than last year but this is mostly due to the expectation in the determination.
- (5) Variable usage charge – income from variable usage charges paid by train operators is lower than the determination expected, continuing the trend from the previous year. Although income is largely in line with the previous year, the regulatory expectation is for continued growth in this area and so the targets get harder each year.
- (6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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). As market prices have been lower than the regulator assumed in each of the last four years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).

Statement 6a: Analysis of income, London North East – continued

In £m 2017-18 prices unless stated

- (7) Capacity charge – once more income in the current year is favourable to the determination. This is because of increased train services offered in the year compared to the regulator's assumption in response to customer demand.
- (8) Property income – this is higher than the determination target this year mainly due to additional property sales. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway. Income in the control period to date is ahead of the regulatory target, mainly due to better returns on the rental estate than the regulator assumed. Extra property rental income has been generated from offering desirable premises, notably at Kings Cross and Leeds stations. Freight rental income has also contributed following the integration of investments made under Project Mountfield.
- (9) Freight Income –this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. The regulatory determination assumed a significant increase in materials transported to the Drax power station but this has not materialised, exacerbating revenue shortfalls. The structural changes facing the freight market over the past few years has driven the adverse performance to the regulator's assumption for the lower control period to date. The decline in freight income compared to the previous year is due to further decline in coal transportation as power generation companies prepare for the 2025 deadline for compliance with the aforementioned legislative changes.
- (10) Stations income – revenue earned this year is higher than the regulator expected, continuing the trend of the control period to date.
- (11) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination as Network Rail has undertaken less investment framework schemes than the regulator expected. 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.
- (12) Depots income revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. Income is lower than the previous year which, as noted in the previous year's Regulatory financial statements 2016/17 benefitted from some non-recurring benefits following resolution of commercial disputes.

Statement 6b: Analysis of other single till income, London North East

In £m 2017-18 prices unless stated

	2017-18			Cumulative			2016-17
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Property Income							
Property rental	32	37	(5)	128	132	(4)	37
Property sales	8	3	5	15	14	1	7
Adjustment for commercial opex	-	(5)	5	-	(18)	18	-
Total property income	40	35	5	143	128	15	44
Freight income							
Freight variable usage charge	12	23	(11)	55	81	(26)	11
Freight traction electricity charges	-	1	(1)	4	4	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	1	2	(1)	5	6	(1)	2
Freight only line charge	1	1	-	5	2	3	1
Freight specific charge	-	2	(2)	-	2	(2)	-
Freight other income	1	-	1	2	-	2	1
Freight coal spillage charge	1	-	1	5	2	3	-
Total freight income	16	29	(13)	76	97	(21)	15
Open access income							
Variable usage charge income	3	2	1	12	8	4	3
Open access capacity charge	1	1	-	4	5	(1)	1
Open access traction electricity charges	-	-	-	-	-	-	-
Fixed contractual contribution	9	9	-	35	35	-	9
Open access other income	-	-	-	-	-	-	-
Total open access income	13	12	1	51	48	3	13
Stations income							
Managed stations income							
Long term charge	6	6	-	22	23	(1)	5
Qualifying expenditure	8	7	1	31	28	3	8
Total managed stations income	14	13	1	53	51	2	13
Franchised stations income							
Long term charge	10	10	-	45	44	1	9
Stations lease income	8	7	1	30	26	4	9
Total franchised stations income	18	17	1	75	70	5	18
Total stations income	32	30	2	128	121	7	31
Facility and financing charges							
Facility charges	1	3	(2)	4	11	(7)	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	1	3	(2)	4	11	(7)	1
Depots income	12	8	4	41	33	8	15
Other	1	1	-	4	2	2	1
Total other single till income	115	118	(3)	447	440	7	120

Statement 6b: Analysis of other single till income (unaudited), London North East – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	48	37	(11)	198	165	(33)	49
Signalling shift managers	3	2	(1)	12	10	(2)	2
Local operations managers	7	3	(4)	20	12	(8)	6
Controllers	5	5	-	21	23	2	5
Electrical control room operators	2	2	-	5	8	3	1
Total signaller expenditure	65	49	(16)	256	218	(38)	63
Non-signaller expenditure							
Mobile operations managers	6	5	(1)	23	23	-	6
Managed stations	9	6	(3)	36	28	(8)	9
Performance	3	2	(1)	12	10	(2)	3
Customer relationship executives	1	1	-	4	5	1	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	3	3	-	13	14	1	3
Other	8	2	(6)	31	9	(22)	8
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	4	5	1	1	21	20	(3)
Other operating income	(6)	(3)	3	(19)	(15)	4	(4)
Total non-signaller expenditure	28	21	(7)	101	95	(6)	22
Total network operations expenditure	93	70	(23)	357	313	(44)	85
Support costs							
Core support costs							
Human resources	3	10	7	24	45	21	3
Information management	10	11	1	46	48	2	11
Government and corporate affairs	1	3	2	9	14	5	3
Group strategy	1	2	1	4	5	1	-
Finance	4	5	1	14	21	7	5
Business services	3	2	(1)	11	10	(1)	4
Accommodation	10	5	(5)	39	21	(18)	12
Utilities	8	7	(1)	34	29	(5)	10
Insurance	6	8	2	23	32	9	(1)
Legal and inquiry	1	1	-	4	5	1	1
Safety and sustainable development	3	1	(2)	14	7	(7)	3
Strategic sourcing	1	2	1	4	7	3	1
Business change	1	1	-	1	3	2	-
Other corporate functions	9	1	(8)	25	2	(23)	5
Core support costs	61	59	(2)	252	249	(3)	57
Other support costs							
Asset management services	4	8	4	22	37	15	6
Network Rail telecoms	5	5	-	27	24	(3)	5
National delivery service	-	-	-	-	2	2	-
Infrastructure Projects	(4)	-	4	(13)	-	13	(5)
Commercial property	(1)	-	1	(2)	(1)	1	(1)
Group costs	(3)	(1)	2	(17)	(5)	12	-
Total other support costs	1	12	11	17	57	40	5
Total support costs	62	71	9	269	306	37	62
Traction electricity, industry costs and rates							
Traction electricity	36	50	14	147	173	26	35
Business rates	43	29	(14)	137	106	(31)	35
British transport police costs	14	11	(3)	56	48	(8)	15
RSSB costs	2	2	-	6	7	1	2
ORR licence fee and railway safety levy	1	3	2	6	11	5	1
Reporters fees	-	-	-	2	2	-	-
Other industry costs	1	1	-	4	1	(3)	1
Total traction electricity, industry costs and rates	97	96	(1)	358	348	(10)	89
Total network operations expenditure, support costs, traction electricity, industry costs and rates	252	237	(15)	984	967	(17)	236

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumed this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised and higher Business rates partly offset by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a) and lower costs in central functions.
- (3) 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.
- (4) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are broadly in line with the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities. This has been offset by further efficiencies.

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

In £m 2017-18 prices unless stated

- (6) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (7) Government and corporate affairs – costs are notably lower than the determination in the control period to date. The variance arises from a combination of transfers of responsibility to Legal and inquiry, Finance and Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). Responsibility for Railway Heritage Trust was transferred to Finance in 2015/16, further reducing costs. Costs this year are in line with the previous year as many of the transfers of responsibilities were in place for 2016/17.
- (8) Finance – costs are lower than the determination in the control period to date. 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 this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16, part of the Group strategy team and Business Services in the previous year.
- (9) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would reduce compared to the CP4 exit position by 2017/18 but this has not been possible in the face of market conditions.
- (10) Utilities – costs are higher than the determination in the control period to date. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are lower than the previous year reflecting favourable market movements.

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

In £m 2017-18 prices unless stated

- (11) Insurance - costs are favourable to the determination in the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslide at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (12) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. 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 this area. The extra investment this control period includes delivery of 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.
- (13) Strategic sourcing – costs are lower than the determination assumptions for 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, resulting in extra costs in the Other corporate functions category. Costs in the current year are consistent with the previous year.
- (14) Other corporate functions – costs are higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.
- (15) 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 lower than the previous year. Costs are lower than the previous year mostly due to reductions in the costs of supporting the Digital Railway initiative as more of the work in this area is now focused on delivery of capital projects and so the costs are included in capex.

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

In £m 2017-18 prices unless stated

- (16) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (17) 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 mainly due to lower performance related payments to staff and re-organisation costs in the current year. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure) and lower re-organisation costs. Greater detail of these items is included in Statement 7b.
- (18) 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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is in line with the regulator's assumption in the current year as lower traction electricity costs have been offset by extra British Transport Police costs and higher Business rates. Costs in the control period to date are higher than expected as the savings in traction electricity have not been able to mitigate the extra British Transport Police and Business rates costs. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media.
- (19) 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 lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are broadly in line with the previous year.

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

In £m 2017-18 prices unless stated

- (20) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest 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 through the Opex memorandum account mechanism (refer to Statement 10). Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency. As a result, Network Rail expects costs to exceed the regulatory assumption for the final year of the control period too.
- (21) British Transport Police costs - expenses in the year are higher than the determination assumed. 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. This year's costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs elsewhere on the network (including Manchester Victoria and London Bridge). In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year are lower than the previous year as a result of some rebates Network Rail received from British Transport Police Authority following finalisation of prior year cost allocations to different industry members.

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North East

In £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	42	56	60	56	58
MOMS	4	5	6	6	6
Control	7	9	6	6	6
Planning & Performance Staff Costs	5	4	5	-	6
Managed Stations Staff Costs	4	3	2	4	3
Operations Management Staff Costs	5	2	1	3	-
Other	21	7	12	10	14
Total operations & customer services costs	88	86	92	85	93
Total Network Operations	88	86	92	85	93
Support					
Human resources					
Functional support	4	4	3	3	3
Training (inc Westwood)	4	2	2	-	-
Graduates	-	-	1	-	-
Apprenticeships	1	2	2	-	-
Other	2	1	-	-	-
Total human resources	11	9	8	3	3
Information management					
Support	1	1	-	1	1
Projects	-	-	1	-	-
Licences	-	-	-	-	-
Business operations	10	11	11	10	9
Other	-	-	-	-	-
Total information management	11	12	12	11	10
Finance	3	3	3	5	4
Business Change	1	-	1	-	1
Contracts & Procurement	1	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	1	1	1
Planning & development	2	1	1	-	1
Safety & compliance	2	-	-	-	-
Other corporate services	8	2	3	3	3
Commercial property	17	7	8	11	9
Infrastructure Projects	(10)	(2)	(3)	(5)	(4)
Route Services	2	3	2	2	4
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	22	-	-	-	-
National delivery service	1	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	7	8	10	8
Network Rail Telecoms	-	9	8	5	5
Digital Railway	-	4	4	4	2
Safety Technical & Engineering	-	7	6	5	5
Government & Corporate Affairs	-	3	2	3	1
Business Services	-	2	2	4	3
Route Asset Management	-	1	-	-	2
Legal and inquiry	-	1	1	1	1
Group/central					
Pensions	-	-	-	-	-
Insurance	8	10	9	(1)	6
Redundancy/reorganisation costs	11	4	2	2	2
Staff incentives/Bonus Reduction	2	(6)	(1)	-	(2)
Accommodation & Support Recharges	(1)	(4)	(4)	(4)	(4)
Commercial claims settlements	-	-	(1)	-	-
ORR financial penalty	12	(5)	-	-	-
Other	-	1	(1)	2	1
Total group/central costs	32	-	4	(1)	3
Total support	103	70	71	62	62
Total network operations and support costs	191	156	163	147	155

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), London North East – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	79	63	(16)	305	265	(40)	81
Signalling	29	24	(5)	112	101	(11)	30
Civils	35	20	(15)	114	80	(34)	38
Buildings	10	6	(4)	31	28	(3)	15
Electrical power and fixed plant	16	12	(4)	61	52	(9)	16
Telecoms	4	3	(1)	15	12	(3)	4
Other network operations	19	23	4	97	97	-	17
Asset management services	20	5	(15)	59	22	(37)	21
National Delivery Service	(1)	7	8	(4)	28	32	(1)
Property	-	1	1	1	3	2	1
Group	(4)	(3)	1	(17)	(11)	6	(5)
Total maintenance expenditure	207	161	(46)	774	677	(97)	217

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

In £m 2017-18 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 previous year. control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year, reflecting reduced reactive maintenance and asset inspection costs. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but 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 base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17.

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year.
- (4) Civils – costs were higher than the determination mainly as a result of extra civils inspection costs and reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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 other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. The reductions in costs compared to the previous year are due to reduced reactive maintenance required this year.

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, but the control period to date position is broadly in line with the regulatory expectation. Variances in this category 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 – costs for the current year are higher than the regulator assumed, continuing the trend of earlier in the control period. As Network Rail continues with its ambitious programme to electrify large parts of the railway network, there is a requirement for maintenance teams to ensure that these assets are functioning correctly. London North East have also spent more in this area to improve performance. The route has suffered from a number of dewirement incidents which have impacted performance which has required extra remediation and resilience spend. In addition, certain responsibilities have been moved from Other network operations which has decreased costs in that category. Costs are consistent with the previous year.
- (7) Other network operations – costs for the current year are lower than the regulator's expectation mainly due to a transfer of responsibilities and activities to Asset management services, which helped increase costs in that category. For the control period to date, the costs are in line with the PR13 prediction. This is due to the aforementioned savings from transferring accountability offset by extra safety and performance improvement costs. 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 re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are broadly in line with the previous year with some increases reflecting transfers of activity from Track and Signalling as part of the move towards a devolved railway with greater accountability given to local management teams who are closer to the passenger.
- (8) Asset management services – costs are higher than the regulator's assumption this year and the control period to date. This is due a multitude of factors including: transfer of responsibilities from Civils, transfer of activity from Other network operations, additional activity undertaken by the routes to understand and manage the assets in their area and slower than planned efficiency savings. Costs are in line with the previous year.

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (9) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.
- (10) 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. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). This is expected to result in reduced income, albeit with a capital saving, in the final year of the control period.

Statement 9a: Summary analysis of renewals expenditure, London North East

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	118	120	2	690	545	(145)	178
Signalling	119	150	31	463	645	182	83
Civils	53	58	5	336	290	(46)	85
Buildings	11	15	4	71	78	7	4
Electrical power and fixed plant	16	12	(4)	81	62	(19)	31
Telecoms	9	7	(2)	44	44	-	11
Wheeled plant and machinery	9	19	10	46	82	36	11
Information Technology	9	13	4	73	55	(18)	15
Property	2	2	-	12	10	(2)	3
Other renewals	12	45	33	60	31	(29)	9
Total renewals expenditure	358	441	83	1,876	1,842	(34)	430

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially 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). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is slightly higher than the determination which is also a combination of deferrals of projects to compensate for higher underlying project costs. Overall, investment is lower than the previous year with decreases across most asset categories as Network Rail seeks to invest its limited funds in the most optimal way, which has included deferring activities to the final year of the control period and with greater resources redirected to Schedule 8 and maintenance and operations activities to compensate for lower than expected improvements.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (2) Track – this year, costs are in line with the regulatory assumption, However, this is 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 opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan across most categories, with the most notable contribution from High Output, where anticipated volumes are now less than half the planned amount as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher costs. In particular there were major efficiencies planned from High Output, which was a new delivery method being developed at the end of CP4, but these expected gains have proven to be over optimistic. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered. This was most evident in High Output where concerns over the productivity led to a planned reduction in the level of activity with minimal units delivered in the current year. S&C refurbishment delivery volumes decreased by almost 50 per cent.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was lower than the determination expected, continuing the pattern from earlier years of the control period. The control period to date position is one of higher underlying costs being alleviated by deferral of programmes. The most notable area of deferral this year is on the ERTMS programmes as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. Minimal expenditure is now forecast for 2018/19 which will exacerbate the underspend in the control period to date. Level crossing programmes have been delayed this control period due to a lack of appropriate contractor resource and re-prioritisation of funds to other projects to use funds optimally and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on Huddersfield Bradford, Sheffield and Kings Cross projects contributed nearly £40m of extra investment this year compared to 2016/17.
- (4) Civils – expenditure in the year was slightly lower than the regulator anticipated as higher underlying costs were mitigated by deferral of activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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 for the control period to date is higher than the determination expected. This included emergency repair works required in the wake of extreme weather damaging the network, beginning the control period with higher unit costs than assumed and higher underlying costs. These higher underlying costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (5) Buildings – expenditure in the year was about lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The most noticeable category of underspend was in Managed stations which has had minimal investment this year, continuing the trend of the control period to date as funding has been used on projects that the route feel will have most impact on asset performance and passenger delays and safety. The higher like-for-like costs have been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's ever increasing efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. 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 (June 2017) 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 in the control period is lower than the regulatory expectation, mainly due to lower expenditure on Managed stations, partly offset by extra spend at Franchised stations. Expenditure is higher than the previous year mainly due to higher financial underperformance, notably on Franchised stations projects, which included the difficulty of working around tight planning constraints at Middlesbrough station.
- (6) Electrical power and fixed plant – costs were higher than the regulator's assumption this year, continuing the trend of earlier years of the control period. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. 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. Contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index, whereas plant available has been limited as equipment has been required to deliver other projects on the network. For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (June 2017) 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 in the control period to date is approximately higher than the determination anticipated. This is partly due to delays across the portfolio offset by higher like-for-like costs for the reasons outlined above. Investment was lower than the previous year with notable contributions from Overhead line (following completion of a major project to improve resilience on the East Coast Main Line in 2016/17).
- (7) Telecoms – expenditure in the year was slightly lower than the determination, but is in line for the control period to date. Expenditure is lower than the previous year, which included investment in licences and resilience projects as services are migrated from life-expired system.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the year is lower than the determination assumed, mitigating some of the overspends in control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Other renewals includes the following notable items:
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

In £m 2017-18 prices unless stated

- b. Intelligent infrastructure – expenditure is lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – expenditure is lower than the regulator assumed this year, continuing the pattern from earlier years of the control period. Most of the funding available for this programme has been deferred into future years as fewer appropriate projects have been identified to utilise the funding available.
- d. Small plant – expenditure continues to be lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery. This fund is used to procure many small, bespoke pieces of equipment so items are only purchased 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 optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway. Given the cash constraints faced by the organisation, funding has been redeployed to front line activities which have a more direct link to short term performance and safety. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.
- e. Research and development – research and development activity in the control period to date has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has to be funded through renewals. As a result values are included for the first time this year. As there was no renewals funding in the determination this is included as underperformance 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)
- f. 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 with variances in the control period to date being reversed in the final year of the control period. 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 2017-18 prices unless stated

- g. CP4 rollover - following the end of the previous control period (CP4), 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. Almost all of the expenditure in the current year is on 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 more of the schemes that were rolled over from CP4 are completed.

Statement 9b: Detailed analysis of renewals expenditure, London North East

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	36	46	10	206	163	(43)
High output renewal	13	17	4	179	121	(58)
Plain line refurbishment	10	4	(6)	45	13	(32)
S&C renewal	40	24	(16)	132	110	(22)
S&C refurbishment	9	6	(3)	51	28	(23)
Track non-volume	2	9	7	20	45	25
Off track	8	14	6	57	65	8
Total track	118	120	2	690	545	(145)
Signalling						
Full conventional resignalling	52	11	(41)	185	133	(52)
Modular resignalling	-	2	2	-	11	11
ERTMS resignalling	-	58	58	18	88	70
Partial conventional resignalling	7	20	13	18	119	101
Targeted component renewal	3	6	3	9	19	10
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	13	7	(6)	50	29	(21)
Operating strategy other capital expenditure	2	1	(1)	28	16	(12)
Level crossings	17	16	(1)	55	98	43
Minor works	20	21	1	82	99	17
Centrally managed costs	5	8	3	18	33	15
Other	-	-	-	-	-	-
Total signalling	119	150	31	463	645	182
Civils						
Underbridges	16	33	17	122	158	36
Overbridges	13	4	(9)	76	20	(56)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	14	10	(4)
Tunnels	3	3	-	12	12	-
Other assets	4	3	(1)	37	22	(15)
Structures other	-	2	2	9	12	3
Earthworks	17	13	(4)	65	56	(9)
Other	-	-	-	1	-	(1)
Total civils	53	58	5	336	290	(46)
Buildings						
Managed stations	-	4	4	7	21	14
Franchised stations	8	7	(1)	45	36	(9)
Light maint depots	-	1	1	3	4	1
Depot plant	-	1	1	1	5	4
Lineside buildings	-	-	-	9	2	(7)
MDU buildings	3	2	(1)	6	8	2
NDS depots	-	-	-	-	2	2
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	11	15	4	71	78	7

Statement 9b: Detailed analysis of renewals expenditure, London North East - continued

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	3	3
Overhead Line	7	2	(5)	37	11	(26)
DC distribution	-	-	-	2	-	(2)
Conductor rail	-	-	-	-	-	-
SCADA	1	-	(1)	2	6	4
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	3	2	1	12	11
Fixed plant	7	7	-	39	30	(9)
Total electrical power and plant	16	12	(4)	81	62	(19)
Telecoms						
Operational communications	2	1	(1)	8	7	(1)
Network	2	4	2	9	19	10
SISS	1	-	(1)	1	8	7
Projects and other	-	1	1	1	3	2
Non-route capital expenditure	4	1	(3)	25	7	(18)
Total telecoms	9	7	(2)	44	44	-
Wheeled plant and machinery						
High output	1	2	1	14	19	5
Incident response	-	-	-	-	1	1
Infrastructure monitoring	-	1	1	4	3	(1)
Intervention	6	4	(2)	11	20	9
Materials delivery	1	1	-	6	2	(4)
On track plant	1	3	2	5	10	5
Seasonal	-	1	1	2	7	5
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	4	4
Road vehicles	-	6	6	2	16	14
S&C delivery	-	-	-	2	-	(2)
Total wheeled plant and machinery	9	19	10	46	82	36
Information Technology						
IM delivered renewals	9	11	2	68	49	(19)
Traffic management	-	2	2	5	6	1
Total information technology	9	13	4	73	55	(18)
Property						
MDUs/offices	2	1	(1)	8	7	(1)
Commercial estate	-	1	1	4	3	(1)
Corporate services	-	-	-	-	-	-
Total property	2	2	-	12	10	(2)
Other renewals						
Asset information strategy	4	4	-	23	29	6
Intelligent infrastructure	1	3	2	6	12	6
Faster isolations	3	6	3	4	24	20
LOWS	-	1	1	-	1	1
Small plant	1	2	1	3	7	4
Research and development	1	-	(1)	1	-	(1)
Phasing overlay	-	29	29	-	(42)	(42)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	22	-	(22)
Other	2	-	(2)	1	-	(1)
West Coast	-	-	-	-	-	-
Total other renewals	12	45	33	60	31	(29)
Total renewals	358	441	83	1,876	1,842	(34)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), London North East – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 10: Other information, London North East

In £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	38	43	5	120	162	42	23
Access charge supplement Income	(36)	(36)	-	(143)	(143)	-	(37)
Net (income)/cost	2	7	5	(23)	19	42	(14)

Schedule 8

Performance element income	(3)	-	3	(26)	-	26	(6)
Performance element costs	18	1	(17)	53	4	(49)	19
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	15	1	(14)	27	4	(23)	13

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	(6)	(6)	(3)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	14	31	8
RSSB Costs	-	-	1
ORR licence fee and railway safety levy	(2)	(5)	(2)
Reporters fees	-	-	(1)
Other industry costs	-	3	1
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	6	22	4

Statement 10: Other information, London North East – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are lower than the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance. As the level of renewals activity decreased by more than the decrease in Schedule 4 costs financial underperformance has been recognised this year (refer to Statement 5a). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. The disruptive impact of the snow that Storm Emma brought in February has also impacted costs this year. Costs in the control period to date are lower than the regulatory assumption. This is a combination of undertaking less renewals activity and from cheaper possession costs earlier in the control period which resulted in the recognition of financial underperformance (refer to Statement 5a). Costs are higher than the previous year which reflects the higher average cost of possession and the influence of Storm Emma in February which resulted in number of services being cancelled in light of the snow.

Statement 10: Other information, London North East – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included damage to overhead lines whilst the issue of network trespass continues to be challenging. London North East continues to invest in overhead resilience, trespass and suicide mitigation measures to combat these issues. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still.
- (3) The opex memorandum currently shows a net income for this year which is primarily due to changes in the Business Rates that Network Rail has had to endure this year compared to the regulatory assumption. Well-publicised increases in Business Rates came into effect from April 2017 which has contributed to the value of the opex memorandum compared to the previous year and is expected to impact the for 2018/19 as well. The opex memorandum this year also includes penalties the Volume Incentive (see Statement 12) due to lower freight growth than the regulator assumed, notably around biomass fuel for the Drax power station. 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, differences in Business Rates have been partly offset by losses on the volume incentive.

Statement 11:

There is no Statement 11 required for London North East

Statement 12: Volume incentives, London North East

In £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	0	0	48	47	2.1%	1.56	pence per passenger train mile
Passenger farebox (millions)	(2)	0	1,469	1,429	3.5%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(15)	(3)	4	5	2.1%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	(15)	(3)	4,321	5,347	2.3%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	(32)	(6)					

The cumulative volume incentive is determined by the following calculation:

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

Where:

A_t = Actual in year quantity

B = 2017-18 baseline

C_t = 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 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result, which has meant that the control period to date position now reflects a loss. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of the continued structural decline in the freight market. The regulatory expectation was that decreases in freight for traditional items such as coal transportation would be compensated for by large increases in biomass fuel transported to the Drax power station. Although there has been growth in this area, the rate of the increase has been much lower than the regulator expected. The lower freight growth this period has been partly offset by outperforming passenger growth targets in earlier years of the control period.

Statement 14: Renewals volumes, unit costs and expenditure, London North East

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume unit	Cost £m	A Total AFC £m	B Total AFV unit	C = A ÷ B Unit Cost £k/unit	Volume unit	Cost £m	A Total AFC £m	B Total AFV unit	C = A ÷ B Unit Cost £k/unit
Track	Conventional plain line Renewal	km	90	36	57	164	348	93	50	69	166	416
	High Output Renewal	km	1	-	47	57	825	58	45	63	76	829
	Plain line Refurbishment	km	57	7	15	131	115	63	9	19	164	116
	S&C Renewal/Refurbishment	point ends	194	34	48	378	127	271	31	47	487	97
	Track Drainage	lm	54,976	5	26	192,256	0	29,925	8	20	113,185	0
	Fencing	km	55	2	21	521	40	116	6	19	443	43
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	(31)	1	4	(12)	(333)	65	3	7	119	59
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	85	218	-	-	-	152	244	-	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	36	5	10	36	278	19	10	12	19	632
	Targeted Component Renewal	SEU	-	-	-	-	-	14	4	4	14	286
	ERTMS Train Fitment	-	-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	1	1	11	2	5,500	-	-	-	-	-
	Minor Works	-	-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	6	21	-	-	-	14	16	-	-
Civils	Underbridges	m ²	14,411	15	53	33,062	2	26,831	35	79	30,417	3
	Overbridges (incl BG3)	m ²	4,578	11	31	7,803	4	2,880	12	22	3,213	7
	Major Structures	-	-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	1,047	2	4	5,912	1	4,865	2	6	4,865	1
	Culverts	m ²	563	1	2	1,026	2	1,554	2	3	1,554	2
	Footbridges	m ²	224	1	7	1,686	4	533	2	6	1,095	5
	Coastal & Estuarial Defences	m	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m ²	390	1	1	390	3	6,606	5	5	6,606	1
	Structures Other	-	-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	2,366	14	35	3,001	12	647	21	48	1,204	40
	EW Drainage	m	11,388	1	3	13,031	0	15,820	2	2	15,822	0
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	46	136	-	-	-	81	171	-	-
Buildings	Buildings (MS)	m ²	80	-	-	80	-	85	-	-	85	-
	Platforms (MS)	-	-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)	-	-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Buildings (FS)	m ²	6,533	3	3	6,533	0	3,918	3	8	3,968	2
	Platforms (FS)	m ²	1,176	1	2	1,306	2	635	-	-	1,850	-
	Canopies (FS)	m ²	26	-	-	26	-	10,777	-	2	48,068	0
	Train sheds (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m ²	712	-	2	712	3	60	-	-	60	-
	Lifts & Escalators (FS)	-	-	-	-	-	-	-	-	-	-	-
	Other (FS)	-	1,042	1	1	1,042	1	12,074	-	2	18,604	0
	Light Maintenance Depots	m ²	-	-	-	-	-	3,645	-	1	3,645	0
	Depot Plant	-	-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	-	-	-	-	-	35	-	-	46	-
	MDU Buildings	m ²	-	-	-	-	-	435	-	-	545	-
	NDS Depot	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	5	8	-	-	-	3	13	-	-

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	21	2	5	49	102	20	5	23	37	622
	Mid-life refurbishment	Wire runs	-	-	-	-	-	5	1	9	5	1,800
	Structure renewals	No.	9	-	-	9	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	5	-	-	5	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	5	1	1	5	200
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	49	1	2	49	41	-	-	-	-	-
	Signalling Power Cables	km	4	-	16	64	250	12	3	4	12	333
	Signalling Supply Points	No.	-	-	-	-	-	6	2	18	23	783
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
Total			-	3	23	-	-	-	12	55	-	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	4	-	-	4	-	-	-	-	-	-
	Other Surveillance	No.	5	-	-	5	-	-	-	-	-	-
	PABX Concentrator	No. lines	2,948	1	1	10,152	0	6,116	1	1	7,204	0
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	14	-	-	30	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	11	-	1	34	29
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	30	-	1	101	10	60	-	-	695	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	7	-	-	9	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	1	2	-	-	-	1	2	-	-

Statement 14: Renewals volumes, unit costs and expenditure, London North East – continued

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – In Conventional Plan Line Renewal there was a decrease in the unit cost in 2017-18 compared to the prior year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. In Off track there was a negative unit cost in the year however this was due to correcting the number of volumes delivered in the prior year and thus creating in effect a negative volume.
- (3) Signalling – There has been a decrease in the unit cost for Partial Conventional Re-signalling. However there was only one project in the prior year (Sheffield) and two this year (Huddersfield and York) therefore it is not possible to do any meaningful variance analysis.

Statement 14: Renewals volumes, unit costs and expenditure, London North East – continued

In £m 2017-18 prices unless stated

- (4) Civils – In Earthworks there has been a decrease in the unit cost. There is primarily because in the current year there was much more soil cuttings volumes delivered and these have a lower unit cost than rock cuttings or embankments.
- (5) Electrical Power & Fixed Plant – The unit cost for Wiring has gone down. There was only one project in this category across both years. In the current year this project was expanded in scope. Whilst the costs increased from a unit cost point of view this was offset by a larger proportion of volumes being delivered. There was also a unit cost decrease in Signalling Power Cables. There was a different project in each year so the sample size is too small to do any meaningful analysis. The Doncaster project this year had a lower unit cost than the Tram Train one in the prior year.

Statement 1: Summary regulatory financial performance, London North West

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	1,052	1,065	(13)	4,212	4,196	16	1,059
Fixed Income	108	89	19	398	329	69	94
Variable Income	286	321	(35)	1,146	1,203	(57)	289
Other Single Till Income	195	194	1	777	725	52	185
Opex memorandum account	-	-	-	(5)	-	(5)	(3)
Total Income	1,641	1,669	(28)	6,528	6,453	75	1,624
Operating expenditure							
Network operations	134	106	(28)	529	438	(91)	133
Support costs	86	102	16	371	440	69	81
Traction electricity, industry costs and rates	151	173	22	563	616	53	141
Network maintenance	347	284	(63)	1,326	1,183	(143)	333
Schedule 4	44	47	3	205	194	(11)	46
Schedule 8	38	2	(36)	70	6	(64)	4
Total operating expenditure	800	714	(86)	3,064	2,877	(187)	738
Capital expenditure							
Renewals	441	509	68	2,480	2,167	(313)	616
PR13 enhancement expenditure	664	482	(182)	2,529	2,728	199	607
Non PR13 enhancement expenditure	5	-	(5)	275	-	(275)	17
Total capital expenditure	1,110	991	(119)	5,284	4,895	(389)	1,240
Other expenditure							
Financing costs	506	448	(58)	1,573	1,590	17	411
Corporation tax (received)/paid	-	-	-	-	1	1	1
Total other expenditure	506	448	(58)	1,573	1,591	18	412
Total expenditure	2,416	2,153	(263)	9,921	9,363	(558)	2,390

Statement 1: Summary regulatory financial performance, London North West – continued

In £m 2017-18 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 in the other statements of this document.
- (2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was higher than the determination due to Network Rail providing additional services to operators partly offset by differences between inflation rates used to calculate fixed income payable by operators and the rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these discrepancies which, along with additional services provided throughout the control period has delivered the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target with the lower electricity being the overwhelming contributor. Income is broadly in line with the previous year. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is consistent with the determination assumption as lower freight income has been offset by extra property sales. Income for the control period to date is higher than expected, which is mainly due to additional property sales made earlier in the control period. Income is higher than the previous year due to additional property sales. These variances are 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 (June 2017). This year, penalties under the volume incentive mechanism have been mitigated by higher Business rates. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from enlarged stations and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, London North West – continued

In £m 2017-18 prices unless stated

- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are higher than the previous year which, as noted in last year's Regulatory financial statements, benefited from an actuarial reassessment of insurance liabilities. Support costs are discussed 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 (offset by lower recoveries of these costs from operators through income) partly offset by higher Business rates and British Transport Police costs. The savings made in the control period to date are also due to these factors. Costs are higher than the previous year as a result of increased Business rates following a widely-publicised increase in business rates across the country. Traction electricity, industry costs are discussed 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. Also, additional civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are higher than the previous year mainly due to higher reactive maintenance requirements. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are broadly similar to the determination but this reflects higher average possession costs being alleviated by deferral of renewals activity requiring network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs this year are broadly in line with the previous year which reflects lower possession productivity, higher rates payable to operators and the disruptive impact of Storm Emma partly offset by reductions in renewals activities requiring possessions. Schedule 4 costs are discussed 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. Increased network traffic, infrastructure failures and some one-off incidents, notably the snow that Storm Emma brought and a higher level of suicides south of Rugby, contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year mainly due to ever-tightening benchmarks and the impact of network trespass this year. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to net deferrals of activity partially offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is higher than the determination due to higher underlying costs as efficiency assumptions in the determination have not been achieved. Expenditure was lower than the previous year with decreases across almost all categories as Network Rail seeks to invest its limited funds in the most optimal way. As the regulator expected more renewals work was undertaken in earlier years of the control period. Renewals costs are discussed in more detail in Statement 9a.

Statement 1: Summary regulatory financial performance, London North West – continued

In £m 2017-18 prices unless stated

- (14) Capital expenditure - PR13 Enhancements expenditure this year is higher than the baseline, catching up some of the under delivery in earlier years of the control period. These variances are set out in more detail in Statement 3.
- (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 so the higher investment in the current year and the control period to date is axiomatic. Major projects this control period include work on HS2 enabling programmes, Northern Hub and East West rail. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are higher than the determination largely due to higher levels of average net debt during the year. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, London North West

In £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	12,626	11,642	984
Indexation to 2016-17 prices	1,023	943	80
Opening RAB for the year (2016-17 prices)	13,649	12,585	1,064
Indexation for the year	530	488	42
Opening RAB (2017-18 prices)	14,179	13,073	1,106
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	405	509	(104)
PR13 enhancements	652	491	161
Non-PR13 enhancements	14	-	14
Total enhancements	666	491	175
Amortisation	(620)	(620)	-
Adjustments for under-delivery of regulatory outputs [3]	-	-	-
Closing RAB at 31 March 2018	14,630	13,453	1,177

RAB Regulatory financial position - cumulative, London North West

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	11,588	12,693	13,575	14,179	11,588
Adjustments for the actual capital expenditure outturn in CP4	329	-	-	-	329
Renewals	625	687	569	405	2,286
PR13 enhancements	692	568	592	652	2,504
Non-PR13 enhancements	31	198	37	14	280
Total enhancements	723	766	629	666	2,784
Amortisation	(571)	(571)	(594)	(620)	(2,356)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	-	(1)
Closing RAB	12,693	13,575	14,179	14,630	14,630

Statement 2a: RAB - regulatory financial position, London North West – continued

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (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 the early years of the control period 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 efficient overspends (the value of which cannot all be logged up to the RAB) as well as re-profiling activity to the final year of the control period and beyond. 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 is mainly due to the extra expenditure on Northern Hub programme although there are variances in profiling across a number of programmes (as shown in more detail in Statement 3). Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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.

Statement 2a: RAB - regulatory financial position, London North West – continued

In £m 2017-18 prices unless stated

- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	560	558	540	509	2,167
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	31	-	-	-	31
Capitalised financing on CP4 deferrals	1	2	1	2	6
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (renewals)	592	560	541	511	2,204
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(113)	(89)	(158)	(234)	(594)
Capitalised financing on acceleration / (deferrals) of expenditure	(3)	(7)	(13)	(22)	(45)
Adjustments for efficient overspend	179	271	230	165	845
Capitalised financing on efficient overspend	4	14	26	35	79
25% retention of efficient overspend	(46)	(68)	(55)	(42)	(211)
Capitalised financing on efficient overspend 25% retention	(2)	(4)	(7)	(9)	(22)
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	16	11	3	(1)	29
Capitalised financing on efficient overspend through spend to save framework	-	2	2	(1)	3
Retention of efficient overspend through spend to save framework	(3)	(2)	-	2	(3)
Capitalised financing on efficient overspend through spend to save framework retention	-	(1)	-	1	-
Other adjustments	1	-	-	-	1
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	625	687	569	405	2,286
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	(1)	(4)	(9)	(6)	(20)
Adjustment for 25% retention of efficient overspend	48	71	56	40	215
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	-	-	-	2	2
Total actual renewals expenditure (see statement 9)	672	754	616	441	2,483

Statement 2b: RAB - reconciliation of expenditure, London North West - continued

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	516	578	465	491	2,050
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	64	(65)	-	-	(1)
Capitalised financing on CP4 deferrals	2	1	-	-	3
Baseline adjustments	-	268	420	(9)	679
Capitalised financing on Baseline adjustments	-	6	20	31	57
Adjustments to DfT funding	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	(1)	-	-	-	(1)
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (enhancements)	581	788	905	513	2,787
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	70	(217)	(366)	60	(453)
Capitalised financing on acceleration / (deferrals) of expenditure	1	(1)	(15)	(21)	(36)
Adjustments for efficient overspend / (underspend)	47	(4)	89	122	254
Capitalised financing on efficient overspend / (underspend)	1	3	4	9	17
25% retention of efficient overspend / (underspend)	(11)	1	(24)	(29)	(63)
Capitalised financing of 25% efficient overspend / (underspend)	-	(1)	(1)	(2)	(4)
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	-	-	-	-	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price 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	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	2	-	-	-	2
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	692	568	592	652	2,504
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	31	204	26	5	266
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	(11)	-	(2)	(14)
Capitalised financing on non-PR13 enhancements expenditure	1	5	11	11	28
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Other adjustments	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	31	198	37	14	280
Total enhancements (added to the RAB - see statement 2a)	723	766	629	666	2,784
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	(4)	(12)	(20)	(28)	(64)
Adjustment for 25% retention of efficient overspend	13	11	24	31	79
Other Adjustments	8	10	(9)	-	9
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	116	15	73	226	430
Other adjustments	(2)	-	-	-	(2)
Total actual enhancement expenditure (see statement 3)	854	790	697	895	3,236

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), 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 June 2017) 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 with notable contributions from Track, Signalling and Civils projects. 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.

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure. The reduction reported in the current year reflects decreased planned expenditure in this category across the whole control period compared to planned levels of investment included in Business Plans earlier in the control period.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. The increase reported in the current year reflects the reduced expenditure on such schemes compared to earlier plans as noted above.
- (9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.
- (10) 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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, 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 first year of the control period were reversed in the second year of the control period.
- (11) 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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process.

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programmes have been reprofiled into CP6 and beyond.
- (13) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), 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 June 2017) 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, with notable the largest contribution from Northern Hub programme. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (14) 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.
- (15) 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 (June 2017) 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. No expenditure in this category occurred in the current year.
- (16) Enhancements – retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating additional income.
- (17) 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.
- (18) Non-PR13 enhancements – Other adjustments (including discretionary investment) – expenditure in the current year relates to some minor projects undertaken in the route this year to improve the railway network in London North West. As there is no funding available for these schemes, this is treated as financial underperformance (refer to Statement 5.)

Statement 3: Analysis of enhancement capital expenditure, London North West

In £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	2	(2)	(4)	12	16	4
Stations - Access for All (AfA)	1	4	3	21	27	6
Development	(1)	10	11	20	33	13
Level crossing safety	-	(8)	(8)	10	11	1
Passenger journey improvement	-	(20)	(20)	3	16	13
The strategic rail freight network	2	24	22	26	66	40
Total funds	4	8	4	92	169	77
Committed projects						
East West Rail (committed scheme)	34	60	26	240	237	(3)
Northern Hub	550	329	(221)	1,336	1,291	(45)
IEP Programme	-	-	-	1	-	(1)
North Trans Pennine electrification West	-	-	-	-	-	-
NW Electrification	-	-	-	(3)	-	3
Stafford area improvement scheme	12	15	3	181	175	(6)
West coast power supply upgrade	37	7	(30)	201	186	(15)
Total committed projects	633	411	(222)	1,956	1,889	(67)
Named schemes						
The Electric Spine:						
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	2	2	-	8	8
DfT Sofa amount	6	-	(6)	17	15	(2)
Total Electric Spine projects	6	2	(4)	17	23	6
Midlands						
Walsall to Rugeley electrification	41	10	(31)	90	77	(13)
Total Midlands Projects	41	10	(31)	90	77	(13)
HLOS capacity metric schemes						
Chiltern Main Line Train Lengthening	-	3	3	17	16	(1)
North West train lengthening	2	12	10	2	22	20
Total HLOS capacity metric schemes	2	15	13	19	38	19
CP4 project rollovers						
Birmingham New St Gateway	5	(19)	(24)	191	213	22
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	11	6	(5)	58	64	6
Redditch Branch Enhancement	-	-	-	18	18	-
Station Security	1	-	(1)	1	-	(1)
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	17	(13)	(30)	268	295	27
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	(1)	(1)	-	2	2
R&D allowance	-	(1)	(1)	4	4	-
Depots and stabling	29	45	16	115	178	63
Income generating property schemes	2	6	4	38	53	15
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	(70)	-	70	(70)	-	70
Total other projects	(39)	49	88	87	237	150
Total PR13 funded enhancements (see statement 2b)	664	482	(182)	2,529	2,728	199

Statement 3: Analysis of enhancement capital expenditure, London North West - continued

In £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
B) Investments not included in PR13						
Government sponsored schemes						
NHub Huyton & Roby	-	-	-	-	-	-
NW Electrification	(1)	-	1	98	-	(98)
Other government sponsored schemes	5	-	(5)	7	-	(7)
Total Government sponsored schemes	4	-	(4)	105	-	(105)
Network Rail spend to save schemes						
Mountfield	-	-	-	8	-	(8)
Other spend to save schemes	-	-	-	-	-	-
Total Network Rail spend to save schemes	-	-	-	8	-	(8)
East West Rail (committed scheme)	-	-	-	148	-	(148)
Other	(1)	-	1	1	-	1
Total Schemes promoted by third parties	(1)	-	1	149	-	(149)
Discretionary Investment	2	-	(2)	13	-	(13)
Total non PR13 enhancement expenditure	5	-	(5)	275	-	(275)
Total Network Rail funded enhancements (see Statement 1)	669	482	(187)	2,804	2,728	(76)
Third Party PAYG	226	-	(226)	430	-	(430)
Total enhancements (see statement 2b)	895	482	(413)	3,234	2,728	(506)

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £669m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£895m) less the PAYGO schemes funded by third parties (£226m).
- (5) Investment expenditure this year was slightly higher than the previous year which represents a net position across a number of different programmes.
- (6) 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 review) 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. Overall, expenditure in this category this year was lower than the baseline, continuing the trend of earlier years of the control period. Noteworthy variances between expenditure in the year and the baseline are set out below:

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (a) 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. Investment in the control period to date has been lower than planned as fewer appropriate schemes have been identified in the London North West route this control period.
 - (b) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is lower than the baseline which has caused the control period to date variance. This is due to fewer appropriate schemes being identified and designed in the control period compared with the Hendy expectation.
 - (c) Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year was higher than the Hendy baseline which brings the control period to date position broadly in line with the target.
 - (d) 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 was higher than the Hendy baseline as some of the available funding has been reallocated by DfT for other parts of the England & Wales enhancement portfolio. Expenditure in the control period to date is lower than the baseline due to fewer appropriate schemes being identified and designed in the control period compared with the Hendy expectation.
 - (e) 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 lower than the Hendy baseline in the current year and the control period to date but is partly planned to be caught up in the final year of the control period. This includes major investment in Peak Forest to London works.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is higher the baseline, although this is the net position across a number of projects, with the main contribution from Northern Hub. The 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 the 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 lower than the baseline this year, which brings the control period to date investment in line with the baseline. Higher costs for the control period to date are also partly caused by increased total project costs which has resulted in financial underperformance being recognised (refer to Statement 5a).

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (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. Costs in the year are higher than the baseline, reflecting a catch up of work deferred earlier in the control period and higher programme costs. Issues have included: overoptimistic estimates of how quickly designs could be completed and contracts granted, planning delays and restrictions (including numerous on-going public inquiries and discovery of underground mine shafts) and a main contractor entering receivership in 2017/18. As a result of these delays and extra planning, financial underperformance has been recognised (refer to Statement 5a). Total programme costs are expected to cost more than the baseline included in the Hendy review.
 - (c) Stafford Area Improvement Scheme – this programme improves capacity near Stafford by improving the junction at Norton Bridge. Expenditure in the current year is slightly lower than the baseline which brings the programme costs to date largely in line with the Hendy target.
 - (d) West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the Northern programmes noted above. Costs in the control period to date are higher than the baseline, mostly as a result of increased programme costs which has resulted in financial underperformance being recognised (refer to Statement 5c).
- (8) PR13 funded schemes – named schemes - expenditure in the year is more than the baseline mainly due to higher investment in Walsall to Rugeley electrification. This project also drives the control period to date. The following notable variances between expenditure and baselines are set out below:
- (a) Oxford-Bletchley-Bedford electrification - this project is part of a wider electrification strategy to improve regional and national connectivity and links to ports and airports for both passengers and freight to support economic development. Activity in the current year and control period to date has been minimal compared to the baseline as other parts of the company's electrification programme have received priority.
 - (b) 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 in the current year is higher than the Hendy baseline which brings the control period to date in line with the target.
 - (c) 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 in the current year is higher than the baseline, bringing the control period to date position in excess of the Hendy target which has mainly been caused by increased overall programme costs and prolongation of the project. As a result financial underperformance has been recognised in the current year (refer to Statement 5c).
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year and control period to date is less than the baseline, mostly due to lower investment in the North West train lengthening scheme. The following notable variances between expenditure and baselines are set out below:

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (a) Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. The project is largely complete so there is minimal expenditure in the year. However, overall programme costs are expected to be slightly higher than the baseline which has resulted in financial underperformance (refer to Statement 5c).
 - (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. There has been minimal work so far on this programme which has caused a variance in the current year and the control period to date. The milestones and scope of the programme have yet to be agreed with stakeholders which accounts for the slower than planned progress which is not expected to be caught up in the final year of the control period.
- (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. Expenditure in this category is higher than the baseline mostly due to a reduction in the baseline total Birmingham New Street programme. Despite this expenditure for the control period to date is lower than the Hendy baseline due to savings on the Birmingham New Street programme. 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. Adjustments to the baseline have been made to reflect this. The Hendy baseline assumed that the programme would have progressed further by the end of 2015/16 but there remains certain remedial elements of the programme which has resulted in costs in the current year with some expected for the final year of the control period.
 - (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. Expenditure in the current year is higher than the baseline which offsets some of the underspend experienced in the first three years of the control period. This is mostly due to delays in agreeing programme delivery and possession windows with operators leading to difficulties finalising contractor agreements. Availability of suitable plant also postponed certain activities and value engineering studies have delayed progress. As a result of these factors financial underperformance has been recognised this control period on this programme (refer to Statement 5a).
 - (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 for the control period to date is in line with the baseline and this programme is substantially complete.

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (11) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a capital grant from DfT in the year which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is still lower than the ORR assumed mainly due to slower utilisation of the Depots & Stabling fund. Notable variances to the baseline include:
- (a) 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 in the year is lower than the baseline, continuing the trend from earlier years of the control period. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT. Investment in the current year is in line with the previous year.
 - (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 6a). 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 current year are the control period to date is lower than the baseline as fewer schemes with a robust business case have been identified in the control period compared the to the Hendy baseline.
 - (c) Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its England & Wales enhancement programme, an element of which was allocated to each operational route. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB (refer to Statement 2a).
- (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 2a) or recognised as financial performance (refer to Statement 5c) 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. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

In £m 2017-18 prices unless stated

- b. Schemes promoted by third parties – the main item in this category which accounts for the majority of the expenditure this control period was East West Rail Phase 1. Part of the overall programme is funded through the PR13 allowances (and so is included in a section above in this statement) and partly through this classification. Expenditure through this fund in the current year has been minimal, continuing the trend of the previous year.
- c. Discretionary investment – expenditure in the control period to date mainly relates to Manchester Victoria station redevelopment and, earlier in the control period, on 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). Manchester Victoria costs related to costs borne by Network Rail on that programme that were not eligible for RAB addition. In addition, costs in the current year relate to expenditure incurred by London North West on a number of small programmes to provide benefits to the network. As these projects were not funded through the determination or subsequent Hendy review, they resulted in financial underperformance being recognised (refer to Statement 5c).
- d. PAYGO – as noted above this year DfT made a cash contribution to the England & Wales enhancement portfolio this year, an element of which was allocated to each of the operational routes, reducing the amount that is added to the RAB in the above categories and increasing expenditure in this area. Amounts in this category also include government contributions towards HS2 enabling works at Euston station and the East West Rail programme.

Statement 4: Net debt and financial ratios, London North West

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	9,761	8,933	(828)	7,271	7,100	(171)
Income						
Grant income	(1,052)	(1,065)	(13)	(4,041)	(4,026)	15
Fixed charges	(108)	(89)	19	(382)	(315)	67
Variable charges	(286)	(321)	(35)	(1,098)	(1,156)	(58)
Other single till income	(195)	(194)	1	(746)	(698)	48
Total income	(1,641)	(1,669)	(28)	(6,267)	(6,195)	72
Expenditure						
Network operations	134	106	(28)	509	422	(87)
Support costs	86	102	16	355	423	68
Traction electricity, industry costs and rates	151	173	22	542	593	51
Network maintenance	347	284	(63)	1,273	1,134	(139)
Schedule 4	44	47	3	196	186	(10)
Schedule 8	38	2	(36)	70	6	(64)
Renewals	441	509	68	2,367	2,075	(292)
PR13 enhancement	664	491	(173)	2,427	1,966	(461)
Non-PR13 enhancement	5	-	(5)	261	-	(261)
Total expenditure	1,910	1,714	(196)	8,000	6,805	(1,195)
Financing						
Interest expenditure on nominal debt - FIM covered	78	153	75	357	521	164
Interest expenditure on index linked debt - FIM covered	52	60	8	212	228	16
Expenditure on the FIM	61	97	36	281	360	79
Interest expenditure on government borrowing	171	-	(171)	344	-	(344)
Interest on cash balances held by Network Rail	(2)	(6)	(4)	(7)	(15)	(8)
Total interest costs	360	304	(56)	1,187	1,094	(93)
Accretion on index linked debt - FIM covered	146	144	(2)	344	496	152
Total financing costs	506	448	(58)	1,531	1,590	59
Corporation tax	-	-	-	-	1	1
Other	206	-	(206)	207	125	(82)
Movement in net debt	981	493	(488)	3,471	2,326	(1,145)
Closing net debt	10,742	9,426	(1,316)	10,742	9,426	(1,316)

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	1.01	1.12	0.96	0.62	1.10
FFO/interest	2.95	2.94	2.65	2.34	3.14
Net debt/RAB (gearing)	69.3%	70.3%	71.5%	73.4%	70.1%
FFO/debt	9.7%	9.2%	8.8%	7.8%	10.1%
RCF/debt	6.5%	6.3%	5.7%	4.5%	6.9%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.4%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	n/a

Statement 4: Net debt and financial ratios, London North West – continued

In £m nominal unless otherwise stated

Note:

- (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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for London North West as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to London North West 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.
- (3) Net debt attributable to London North West at 31 March 2018 is £1.3bn 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, higher net operating costs and movements in working capital have driven increases in debt. These extra cash outflows have been partly mitigated by financing costs and Support costs savings.
- (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 other 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 as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

Statement 4: Net debt and financial ratios, London North West – continued

In £m nominal unless otherwise stated

(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 made 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 year. This is largely due to higher levels of average net debt during the year. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are marginally higher than the previous year which, ceteris paribus, is expected as the interest expense on index-linked debt in the previous year is added to the principle for future years and there are no scheduled repayments of this type of debt in the current control period. Additionally, RPI this year has been higher than the previous year, thus increasing the interest expense recognised in 2017/18.
- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year.

Statement 4: Net debt and financial ratios, London North West – continued

In £m nominal unless otherwise stated

- 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are broadly in line with those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) which has been offset by higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of funding made available during the course of construction on enhancement projects.

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:

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging 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 Maintenance costs partly offset by savings in Support costs as described elsewhere in these accounts. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

Statement 4: Net debt and financial ratios, London North West – continued

In £m nominal unless otherwise stated

- (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 2017/18 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. 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 absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected.
- (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 adverse variance to the regulator’s assumption is due to higher operating costs than planned, notably 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 but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4) and adverse movements in working capital. The decline in the ratio this 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, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, London North West

In £m 2017-18 prices unless stated

2017-18									
	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in total financial performance	Variances in volume of work	Other adjustments to PR13	Final Variance	Financial out / (under) performance
	A	B	C Favourable / (Adverse)		D	E	F	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income									
Grant Income	1,052	1,065	(13)	-	(13)	-	-	-	-
Fixed Income	108	89	19	-	19	-	-	-	-
Variable Income	219	231	(12)	-	-	-	-	(12)	(12)
Other Single Till Income	195	194	1	-	-	-	-	1	1
Opex memorandum account	-	-	-	-	5	-	-	(5)	(5)
Total Income	1,574	1,579	(5)	-	11	-	-	(16)	(16)
Expenditure									
Network operations	134	106	(28)	-	-	-	-	(28)	(28)
Support costs	86	102	16	-	1	-	-	15	15
Industry costs and rates	75	67	(8)	-	(5)	-	-	(3)	(3)
Traction electricity	8	15	7	-	-	-	-	7	7
Reporter's fees	1	1	-	-	-	-	-	-	-
Network maintenance	347	284	(63)	-	-	(5)	-	(58)	(58)
Schedule 4 costs	44	47	3	-	-	26	-	(23)	(23)
Schedule 8 costs	38	2	(36)	-	-	-	-	(36)	(36)
Renewals	441	509	68	-	-	235	-	(167)	(44)
PR13 Enhancements	664	482	(182)	-	-	(60)	-	(122)	(29)
Non PR13 Enhancements	5	-	(5)	-	-	(3)	-	(2)	(2)
Financing Costs	506	448	(58)	-	(58)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-	-
Total Expenditure	2,349	2,063	(286)	-	(62)	193	-	(417)	(201)
Total:			(291)		(51)	193	-	(433)	(217)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters									(217)
Less adjustments for under-delivery of outputs and reduced sustainability									
Under-delivery of train performance requirements (PPM)									(23)
Under-delivery of train performance requirements (CaSL)									(5)
Missed milestones for asset management - data quality									(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)									-
Missed milestones for Enhancements									-
Total adjustment for under-delivery outputs									(29)
Total financial out / (under) performance to be recognised									(246)

Statement 5a: Total financial performance, London North West - continued

In £m 2017-18 prices unless stated

	Cumulative								
	Actual	Adjusted PR13	Variance to adjusted PR13	Due to:	Variance not included in 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%
	A	B	C Favourable / (Adverse)		D	E	F		
Income									
Grant Income	4,212	4,196	16	-	16	-	-	-	-
Fixed Income	398	329	69	-	69	-	-	-	-
Variable Income	885	897	(12)	-	-	-	-	(12)	(12)
Other Single Till Income	777	725	52	-	-	-	-	52	52
Opex memorandum account	(5)	-	(5)	-	(6)	-	-	1	1
Total Income	6,267	6,147	120	-	79	-	-	41	41
Expenditure									
Network operations	529	438	(91)	-	-	-	-	(91)	(91)
Support costs	371	440	69	-	10	-	-	59	59
Industry costs and rates	272	261	(11)	-	1	-	-	(12)	(12)
Traction electricity	30	46	16	-	-	-	-	16	16
Reporter's fees	-	3	3	-	-	3	-	-	-
Network maintenance	1,326	1,183	(143)	-	-	5	-	(148)	(148)
Schedule 4 costs	205	194	(11)	-	-	59	-	(70)	(70)
Schedule 8 costs	70	6	(64)	-	-	-	-	(64)	(64)
Renewals	2,480	2,167	(313)	-	-	537	-	(850)	(215)
PR13 Enhancements	2,529	2,728	199	-	-	454	-	(255)	(64)
Non PR13 Enhancements	275	-	(275)	-	-	(262)	-	(13)	(13)
Financing Costs	1,573	1,590	17	-	17	-	-	-	-
Compensation	-	-	-	-	-	-	-	-	-
Corporation tax	-	1	1	-	-	1	-	-	-
Total Expenditure	9,660	9,057	(603)	-	28	797	-	(1,428)	(602)
Total:			(483)		107	797		(1,387)	(561)
					0	0	0	0	-
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments									(561)
Less adjustments for under-delivery of outputs and reduced sustainability									
Under-delivery of train performance requirements (PPM)									(78)
Under-delivery of train performance requirements (CaSL)									(14)
Missed milestones for asset management - data quality									(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)									(11)
Missed milestones for Enhancements									(1)
Total adjustment for under-delivery outputs									(105)
Total financial out / (under) performance to be recognised									(666)

	2017-18			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	(67)	(90)	-	23	(261)	(306)	-	45
Total variance not included in total	(67)	(90)	-	23	(261)	(306)	-	45
Breakdown of variance not included in total financial performance - Support costs:								
Spend to save adjustment	1	-	-	1	4	-	-	4
Release of CP4 long distance financial penalty provision	-	-	-	-	6	-	-	6
Total variance not included in total	1	-	-	1	10	-	-	10
Breakdown of variance not included in total financial performance - Traction electricity:								
Adjustments for external traction	67	90	-	(23)	261	306	-	(45)
Total variance not included in total	67	90	-	(23)	261	306	-	(45)

Statement 5a: Total financial performance, London North West – continued

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 – part of the variance that has arisen in the year and the control period to date 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. The remaining variance relates to additional income Network Rail has been able to generate through extra franchise income. Under the FPM guidelines agreed with ORR no financial outperformance is recorded for this.

Statement 5a: Total financial performance, London North West – continued

In £m 2017-18 prices unless stated

- (3) Variable income – in the current year and the control period to date, Network Rail has ran less trains than the regulator expected and so has earned less through the variable track access and capacity charge arrangements than the determination target. 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. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – this year, marginal financial outperformance has been reported, as extra property sales have compensated for lower freight income. The lower freight income arises from structural changes to the industry (including legislative changes to coal transportation). In the control period to date, the financial outperformance generated by extra property sales (including disposing of its interests in the Grand Central shopping complex in Birmingham) has helped offset lower freight income. Other single till income is set out in more detail in Statement 6a.
- (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 and in the control period to date. Slow freight growth owing structural changes in the industry and slower growth in passenger numbers this year (including the impact of industrial action) have resulted in financial underperformance being recognised this year, which has negated the outperformance recognised earlier in the control period. The volume incentive is discussed in more detail in Statement 12.

Statement 5a: Total financial performance, London North West – continued

In £m 2017-18 prices unless stated

- (6) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. There are also some extra managed stations costs as some locations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.
- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business, continuing the trend of earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D.

Statement 5a: Total financial performance, London North West – continued

In £m 2017-18 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 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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance). The control period to date position reflects similar factors to those noted above.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the control period to date, 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.

Statement 5a: Total financial performance, London North West – continued

In £m 2017-18 prices unless stated

- (11) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are broadly in line with the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are higher than the regulatory assumption. This is a combination of undertaking less renewals activity partially offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a).

Statement 5a: Total financial performance, London North West – continued

In £m 2017-18 prices unless stated

- (13) Schedule 8 costs – costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included lineside fires at Harrow and South Hampstead as well as storm damage in June 2017. Also, the issue of network trespass was a particular challenge this year with the London North West route south of Rugby particular effected. Delays in this part of the network incur relatively large penalties which exacerbated the financial impact of these events. Whilst some positive steps are being taken (such as investment in higher fencing and other technology to minimise access, increased security patrols at known hotspots and working with the Samaritans) such disruption affects performance significantly. In addition, changes made unilaterally by an operator to the published timetable has increased pressure on performance.
- (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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b.
- (15) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme and is dominated by Northern Hub in both the current year and the control period to date. Individual programme variances are 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. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, London North West – continued

In £m 2017-18 prices unless stated

- (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 FPM recognised in the control period to date mostly relates to Manchester Victoria which cost more than the funding available, necessitating a contribution from Network Rail to complete the project.
- (17) Financing costs – financing costs are higher than the regulator expected mainly due to higher levels of average net debt during the year compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.
- (18) Corporation tax – no income tax payments have been made this year, although the control period to date position is favourable. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed at the end of the control period when a full picture is available.

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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.
- (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 2017/18, continuing the trend of the earlier years 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 2017/18, continuing the trend of earlier years 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 5a: Total financial performance, London North West – continued

In £m 2017-18 prices unless stated

- (4) Missed enhancement milestones – in line with the regulator's rules 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 there have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.
- (6) Asset management – the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this year.

Statement 5b: Total financial performance - renewals variance analysis, London North West

In £m 2017-18 prices unless stated

2017-18								
	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	44	96	(52)	(13)		(13)	-	-
Signalling	(40)	8	(48)	(12)		(12)	-	-
Civils	10	42	(32)	(8)		(8)	-	-
Buildings	3	23	(20)	(5)		(5)	-	-
Electrical power and fixed plant	(6)	6	(12)	(3)		(2)	(1)	-
Telecoms	2	6	(4)	(1)		-	(1)	-
Wheeled plant and machinery	15	15	-	-		-	-	-
IT	-	-	-	-		-	-	-
Property	1	1	-	-		-	-	-
Other renewals	39	38	1	(2)		(2)	-	-
Total	68	235	(167)	(44)		(42)	(2)	-

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	(167)	117	(284)	(71)		(72)	1	-
Signalling	(112)	72	(184)	(46)		(39)	(7)	-
Civils	(80)	148	(228)	(57)		(34)	(23)	-
Buildings	(14)	62	(76)	(19)		(12)	(7)	-
Electrical power and fixed plant	59	131	(72)	(18)		(3)	(15)	-
Telecoms	37	41	(4)	(1)		(2)	1	-
Wheeled plant and machinery	56	56	-	-		-	-	-
IT	(36)	(36)	-	-		-	-	-
Property	(5)	(9)	4	1		1	-	-
Other renewals	(51)	(45)	(6)	(4)		2	(6)	-
Total	(313)	537	(850)	(215)		(159)	(56)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

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, continuing the trend from the previous years on the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

In £m 2017-18 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year, some of which was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The practical deliveries of using High Output delivery methods resulted in London North West electing not to use this delivery method in 2017/18. However, there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which all contributed to the financial underperformance this year. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets, continuing the trend of earlier years of the control period. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes such as Liverpool Lime St, Weaver Wavertree & Birmingham New Street where extra scope was added into programmes, taking advantage of contractor and possession availability.

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

In £m 2017-18 prices unless stated

- (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. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Assets have also been found to be in worse condition than expected, requiring extra intervention costs to remediate. Finally, 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 London North West. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. This included work restoring the Carlisle-Settle line following storm damage and a significant landslide at Harbury tunnel.
- (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. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, some extra work has been undertaken to improve asset condition, safety and operator customer relationships, notably at Liverpool Moorfields, Manchester Victoria, Carlisle and London Euston minor works.
- (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 with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119) have added additional scope into the workbank with no corresponding increase in the funding available. Extra volumes have been required following decisions to invest in performance improvement schemes notably in the Bletchley area. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher. The underperformance in the control period to date is largely due to the same factors.

Statement 5b: Total financial performance - renewals variance analysis, London North West – continued

In £m 2017-18 prices unless stated

- (7) Other – this is made up of a number of different categories including the following:
- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
 - b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.
 - c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constraints the activities required to build capacity for CP6 and beyond is now funded through renewals.
 - d. CP4 rollover: 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. The underperformance recognised in the control period to date includes notable contributions from and FTN.

Statement 5c: Total financial performance - enhancement variance analysis, London North West

In £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
East West Rail (committed scheme)	26	33	-	(7)	(2)
West coast power supply upgrade	(30)	(10)	-	(20)	(5)
Walsall to Rugeley electrification	(31)	(12)	-	(19)	(4)
Chiltern Main Line Train Lengthening	3	3	-	-	-
Manchester Victoria	-	-	-	-	-
Northern Hub	(221)	(151)	-	(70)	(17)
IEP Programme	-	-	-	-	-
Bromsgrove Elec - Midlands Improvements Progr	(5)	1	-	(6)	(1)
Other Enhancements	71	73	-	(2)	(2)
Total	(187)	(63)	-	(124)	(31)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
East West Rail (committed scheme)	(3)	22	-	(25)	(6)
West coast power supply upgrade	(15)	21	-	(36)	(9)
Walsall to Rugeley electrification	(13)	21	-	(34)	(9)
Chiltern Main Line Train Lengthening	(1)	3	-	(4)	(1)
Manchester Victoria	(11)	-	-	(11)	(11)
Northern Hub	(45)	106	-	(151)	(38)
IEP Programme	(1)	(1)	-	-	-
Bromsgrove Elec - Midlands Improvements Progr	6	12	-	(6)	(1)
Other Enhancements	7	8	-	(1)	(2)
Total	(76)	192	-	(268)	(77)

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

In £m 2017-18 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 and so 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 their 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 incoming 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). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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 control period to date. The reason for the increased costs 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. The programme costs remain broadly in line with the expected costs forecast at March 2017 and so the amount of financial underperformance recognised in 2017/18 is in line with expectation.

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

In £m 2017-18 prices unless stated

- (2) West coast power supply upgrade – the anticipated final costs of the programme have increased in recent years resulting in financial underperformance being recognised in the current year and the control period to date. Expected programme costs increases arose from contractor disputes, extra scope delivered at Crewe/ Winsford substations, Earlier in the control period costs increased due in part of delays in a number of sectional commissionings due to uncertainty regarding requirements to cover specific isolation scenarios. A subsequent reprioritisation of feeder areas has resulted in an adverse impact on the programme, where the project has been unable to achieve the forecast available productive time due in part to constrained access and an increase in the volume of safety critical staff required to deliver the revised programme. De-vegetation work, trough clearance and remediation work also exceeding the initial estimated volumes as has the number of switches and circuit breakers required. Lastly, milestone changes on Northern programmes (notably North West Electrification Programme) have had a knock-on impact on this programme.
- (3) Walsall to Rugeley electrification – as a result of expected increases in the total programme costs financial underperformance has been recognised this control period. Programme delivery has been slower than planned due to contractor delivery and identification of a number of undocumented historic mine works found underneath the line after work began. The discovery of this has necessitated redesign of some of the bases to support overhead lines, resulting in extra costs and prolongation of the project. In addition, interfacing with existing overhead line electrification equipment at Walsall which was dates from the 1960s has proved to be more complex than first predicted.
- (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. As this additional expenditure is not eligible for RAB addition, 100 per cent of the variance is included in the assessment of financial performance.
- (5) Northern Hub – underperformance has been recognised this year and for the control period to date following a revision of total programme costs subsequent to the baseline being re-set following the Hendy review. This increase is due to a number of factors including increased scope arising from worse than expected asset condition necessitating extra remediation costs and extra requirements as part of the Liverpool Lime Street remodelling. In addition, a new procurement model is being used for this programme which is proving more costly than expected. There have also been cost increases following programme delays caused by difficulties in demolishing historic buildings, regarding safety and preservation issues. In addition there have been a number of unforeseen challenges such as route wide mining, DNO power lines, complexity of signalling arrangements and OLE design which have influenced costs. Access constraints, timetable commitments and higher than expected supply chain costs have added extra cost pressures with the widely-publicised demise of Carillion adding delays to the programme whilst alternative arrangements were enacted.
- (6) Bromsgrove electrification – the expected total programme costs increased this year. This was mostly due to difficulties in completing scheduled works during a long blockade over the festive period. Further possessions have had to be acquired in the forthcoming year which will incur extra costs on the project.

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

In £m 2017-18 prices unless stated

- (7) 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. In addition, minor financial performance variances are captured through this heading.

Statement 5d: Total financial performance - REBS performance, London North West

In £m 2017-18 prices unless stated

	A	B	C	D	E	F	G
				Cumulative to 2017-18			
				Deferral			
				(acceleration) of			
	Actual	REBS Baseline	Variance to REBS Baseline	work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	249	270	(21)	-	-	-	(21)
Capacity charge	509	524	(15)	-	-	-	(15)
Electricity asset utilisation charge	19	21	(2)	-	-	-	(2)
Property income	310	220	90	-	-	-	90
Expenditure	-	-	-	-	-	-	-
Network operations	529	496	(33)	-	-	-	(33)
Support costs	371	425	54	-	6	-	48
RSSB and BT Police	93	79	(14)	-	-	-	(14)
Network maintenance	1,326	1,130	(196)	16	-	-	(212)
Schedule 4 costs	205	181	(24)	46	-	-	(70)
Schedule 8 costs	70	-	(70)	-	-	-	(70)
Renewals	2,480	2,101	(379)	471	-	(635)	(215)
Total REBS performance			(610)	533	6	(635)	(514)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(78)
Under-delivery of train performance requirements (CaSL)							(14)
Missed milestones for asset management - data quality							(1)
Missed ORBIS milestones							(11)
Total adjustment for under delivery of outputs and reduced sustainability							(104)
Cumulative performance to end of 2017-18							(618)
Less cumulative outperformance recognised up to the end of 2016-17							(400)
Net REBS performance for 2017-18							(218)

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 2017-18 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	1,052	1,065	(13)	4,212	4,196	16	1,059
Franchised track access income							
Fixed charges	108	89	19	398	329	69	94
Variable charges							
Variable usage charge	48	52	(4)	194	199	(5)	49
Traction electricity charges	67	90	(23)	261	306	(45)	65
Electrification asset usage charge	4	5	(1)	19	19	-	5
Capacity charge	125	131	(6)	505	515	(10)	128
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	42	43	(1)	167	164	3	42
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	286	321	(35)	1,146	1,203	(57)	289
Total franchised track access income	394	410	(16)	1,544	1,532	12	383
Total franchised track access and grant income	1,446	1,475	(29)	5,756	5,728	28	1,442
Other single till income							
Property income	80	65	15	322	237	85	71
Freight income	19	33	(14)	75	113	(38)	19
Open access income	2	1	1	3	5	(2)	1
Stations income	69	64	5	273	258	15	70
Facility and financing charges	12	17	(5)	49	61	(12)	12
Depots Income	12	13	(1)	50	48	2	11
Other income	1	1	-	5	3	2	1
Total other single till income	195	194	1	777	725	52	185
Total income	1,641	1,669	(28)	6,533	6,453	80	1,627

Statement 6a: Analysis of income, London North West – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower government grants (arising from lower inflation) and lower freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned extra property sales. Income for the control period to date is higher than the regulatory target due to extra property sales (notably Network Rail's interests in Grand Central shopping centre) which has been partly offset by lower traction electricity income and freight revenue (for the reasons noted above). Income is higher than the previous due to extra property sales generated this year.

Statement 6a: Analysis of income, London North West – continued

In £m 2017-18 prices unless stated

- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only 10.96 per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table. Grant income is slightly lower than the previous year which is in line with the regulator's expectation in the PR13.

- (4) Fixed charges – fixed charge income was higher than the determination this year. This is attributable the provision of additional services to operators continuing the trend of supplementary income received in earlier years of the control period. This extra revenue more than offsets reduced income on core contracts arising from differences in inflation factors as described in the above comment on grant income. Fixed charges for the control period to date are higher than the regulator expected due to a combination of inflationary benefits as described above in the comment on Grant income and the provision of additional services. Fixed charges are higher than last year but this is mostly due to the expectation in the determination.
- (5) Variable usage charge – income from variable usage charges paid by train operators is lower than the determination expected this year which has resulted in lower income in the control period to date. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2017/18 which necessitated extra disruptive possessions, including Northern Programmes. Differentials in the inflation rate used to uplift the determination target and the contractual prices charged, as described in more detail above, also contributes to the shortfall this year. Income is broadly in line with the previous year but the regulatory targets get more challenging with each passing year.

Statement 6a: Analysis of income, London North West – continued

In £m 2017-18 prices unless stated

- (6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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). As market prices have been lower than the regulator assumed in each of the last four years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).
- (7) Capacity charge – in the current year this is lower than the determination continuing the trend of earlier years in the control period. About half of the adverse position in the year is due to differentials in the inflation rate used to uplift the determination target and the contractual prices charged, as described in more detail above. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2017/18 which necessitated extra disruptive possessions, including Northern Programmes. There has been a slight decrease in the capacity charge earned this year, mainly due to these large disruptive programmes, as well as the snow that Storm Emma brought at the end of February which lead to widespread cancellations.
- (8) Schedule 4 net income – income is determined through track access contracts and so usually only vary to the ORR assumption due to differences in inflation between access contracts and the rates the ORR use for the Regulatory financial statements, as set out in the above comment on Grant income.
- (9) Property income – this is favourable to the determination target this year due to additional property sales. As noted in previous years' 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. Property sales in the current year benefits from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway. Income in the control period to date is ahead of the regulatory target, which includes the benefit of Network Rail disposing of its interests in the Grand Central shopping complex in Birmingham earlier in the control period as well as the extra sales made in the current year.
- (10) Freight Income – this is well below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing compared to 2014/15. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. Overall, the tonnage of materials moved by freight has decreased since the last year of CP4. 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) but lower income. The structural changes facing the freight market over the past four years and the lower electricity market prices has driven the adverse performance to the regulator's assumption for the lower control period to date. Income is in line with the previous year.

Statement 6a: Analysis of income, London North West – continued

In £m 2017-18 prices unless stated

- (11) Stations income – revenue earned this year is higher than the regulator expected continuing the trend of earlier years of the control period. Extra income has been earned following redevelopment of Birmingham New Street station and London Euston (although this has also increased operational costs – refer to Statement 7a).
- (12) Facility and financing charges – income in this category is 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. Income is consistent with 2016/17.

Statement 6b: Analysis of other single till income, London North West

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Property Income							
Property rental	55	66	(11)	206	239	(33)	56
Property sales	25	7	18	116	26	90	15
Adjustment for commercial opex	-	(8)	8	-	(28)	28	-
Total property income	80	65	15	322	237	85	71
Freight income							
Freight variable usage charge	13	19	(6)	55	71	(16)	14
Freight traction electricity charges	4	7	(3)	14	24	(10)	3
Freight electrification asset usage charge	-	1	(1)	-	2	(2)	-
Freight capacity charge	1	3	(2)	4	8	(4)	1
Freight only line charge	-	1	(1)	1	4	(3)	-
Freight specific charge	-	1	(1)	-	2	(2)	-
Freight other income	1	-	1	1	-	1	-
Freight coal spillage charge	-	1	(1)	-	2	(2)	1
Total freight income	19	33	(14)	75	113	(38)	19
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	2	1	1	3	5	(2)	1
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	2	1	1	3	5	(2)	1
Stations income							
Managed stations income							
Long term charge	7	8	(1)	30	31	(1)	8
Qualifying expenditure	21	15	6	79	61	18	21
Total managed stations income	28	23	5	109	92	17	29
Franchised stations income							
Long term charge	35	35	-	138	141	(3)	35
Stations lease income	6	6	-	26	25	1	6
Total franchised stations income	41	41	-	164	166	(2)	41
Total stations income	69	64	5	273	258	15	70
Facility and financing charges							
Facility charges	12	17	(5)	49	61	(12)	12
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	12	17	(5)	49	61	(12)	12
Depots income	12	13	(1)	50	48	2	11
Other	1	1	-	5	3	2	1
Total other single till income	195	194	1	777	725	52	185

Statement 6b: Analysis of other single till income (unaudited), London North West – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	2017-18			Cumulative			2016-17
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	62	54	(8)	251	231	(20)	64
Signalling shift managers	4	4	-	13	14	1	3
Local operations managers	2	4	2	15	16	1	4
Controllers	9	8	(1)	32	33	1	8
Electrical control room operators	2	3	1	11	11	-	2
Total signaller expenditure	79	73	(6)	322	305	(17)	81
Non-signaller expenditure							
Mobile operations managers	12	8	(4)	46	32	(14)	12
Managed stations	16	9	(7)	66	39	(27)	18
Performance	-	4	4	7	14	7	2
Customer relationship executives	3	2	(1)	11	7	(4)	1
Route enhancement managers	-	-	-	5	-	(5)	-
Weather	-	5	5	-	20	20	-
Other	-	3	3	10	13	3	3
Operations delivery	1	-	(1)	2	-	(2)	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	32	7	(25)	94	29	(65)	23
Other operating income	(9)	(5)	4	(34)	(21)	13	(7)
Total non-signaller expenditure	55	33	(22)	207	133	(74)	52
Total network operations expenditure	134	106	(28)	529	438	(91)	133
Support costs							
Core support costs							
Human resources	4	14	10	30	65	35	5
Information management	15	14	(1)	70	58	(12)	17
Government and corporate affairs	2	5	3	12	20	8	3
Group strategy	-	2	2	1	5	4	-
Finance	7	7	-	24	31	7	7
Business services	3	3	-	19	14	(5)	6
Accommodation	15	12	(3)	60	54	(6)	16
Utilities	12	10	(2)	45	42	(3)	12
Insurance	8	11	3	33	47	14	(2)
Legal and inquiry	2	2	-	8	8	-	2
Safety and sustainable development	5	2	(3)	23	9	(14)	5
Strategic sourcing	2	2	-	7	10	3	2
Business change	2	1	(1)	2	4	2	-
Other corporate functions	7	1	(6)	28	4	(24)	6
Core support costs	84	86	2	362	371	9	79
Other support costs							
Asset management services	6	10	4	33	38	5	8
Network Rail telecoms	7	9	2	39	38	(1)	8
National delivery service	-	-	-	-	2	2	-
Infrastructure Projects	(6)	-	6	(22)	-	22	(6)
Commercial property	(2)	(1)	1	(7)	(2)	5	(2)
Group costs	(3)	(2)	1	(34)	(7)	27	(6)
Total other support costs	2	16	14	9	69	60	2
Total support costs	86	102	16	371	440	69	81
Traction electricity, industry costs and rates							
Traction electricity	75	105	30	291	352	61	74
Business rates	50	44	(6)	168	162	(6)	38
British transport police costs	20	17	(3)	84	71	(13)	22
RSSB costs	2	2	-	9	10	1	3
ORR licence fee and railway safety levy	2	3	1	7	16	9	3
Reporters fees	1	1	-	-	3	3	-
Other industry costs	1	1	-	4	2	(2)	1
Total traction electricity, industry costs and rates	151	173	22	563	616	53	141
Total network operations expenditure, support costs, traction electricity, industry costs and rates	371	381	10	1,463	1,494	31	355

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are slightly lower than the determination assumed this year. This is due lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a) and lower costs in central functions.
- (3) 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.
- (4) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. There are also some extra managed stations costs as some locations (such as Birmingham New Street and London Euston) have been redeveloped necessitating extra running costs. In both situations the extra costs are offset by supplementary income (refer to Statement 6a). Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are slightly higher than the previous year with the largest contribution arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling.

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

In £m 2017-18 prices unless stated

- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.
- (6) 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (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 Other corporate functions as well as minor efficiencies arising from in-sourcing certain activities and better targeting of advertising (such as increased use of social media to communicate directly with the public). These factors contribute to the control period to date variance as does the transfer of responsibility for Railway Heritage Trust to Finance in 2015/16. Costs this year are in line with the previous year as many of the transfers of responsibilities were in place for 2016/17.
- (8) Group strategy – as with the previous year, expenditure is lower than the determination. This has largely been achieved through a combination of reductions in headcount and consultancy and a transfer of some of the team to sit under the Finance organisation. The savings in the control period to date have been due to the same factors.
- (9) Finance – costs were lower than the determination in the control period to date. 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 this new organisational model to develop tighter control of costs and a better level of service. As responsibility for these services had already been largely transferred at the end of CP4 costs for the control period to date are lower than the determination. This has been partly offset by responsibility for the activities of Railway Heritage Trust moving from Government & corporate affairs in 2015/16, part of the Group strategy team and Business Services in the previous year.
- (10) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be lower than the CP4 exit position by 2017/18. Costs are comparable to the previous year.
- (11) Utilities – costs are higher than the determination this year which has generated an overspend in the control period to date. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are consistent with the previous year.

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

In £m 2017-18 prices unless stated

- (12) Insurance - costs are favourable to the determination this year and the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (13) Safety and sustainable development - costs are higher than the determination in the year and the control period to date due to enhanced focus on safety. 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 this area. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.
- (14) Strategic sourcing – costs are lower than the determination assumptions for 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, resulting in extra costs in the Other corporate functions category. Costs in the current year are consistent with the previous year.
- (15) Other corporate functions – costs are higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally. Costs are broadly line with the previous year.
- (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 lower than the previous year mostly due to reductions in the costs of supporting the Digital Railway initiative as more of the work in this area is now focused on delivery of capital projects and so the costs are included in capex.

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

In £m 2017-18 prices unless stated

- (17) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (18) 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 mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator expected. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure) and lower re-organisation costs. Greater detail of these items is included in Statement 7b.
- (19) 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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs partly offset by extra British Transport Police costs and higher Business rates. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media.
- (20) 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 lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise. Costs are broadly in line with the previous year.

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

In £m 2017-18 prices unless stated

- (21) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest 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 through the Opex memorandum account mechanism (refer to Statement 10). Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency. As a result, Network Rail expects costs to exceed the regulatory assumption for the final year of the control period too.
- (22) British Transport Police costs - expenses in the year are higher than the determination assumed. 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. This year's costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs on the network (including Manchester Victoria). In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year are lower than the previous year as a result of some rebates Network Rail received from British Transport Police Authority following finalisation of prior year cost allocations to different industry members.

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North West

In £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	59	66	65	66	71
MOMS	6	12	11	12	12
Control	12	15	13	12	17
Planning & Performance Staff Costs	8	10	11	16	7
Managed Stations Staff Costs	5	6	7	13	8
Operations Management Staff Costs	6	14	15	10	16
Other	32	(2)	17	4	3
Total operations & customer services costs	128	121	139	133	134
Total Network Operations	128	121	139	133	134
Support					
Human resources					
Functional support	8	5	4	5	3
Training (inc Westwood)	5	2	1	-	-
Graduates	1	-	1	-	-
Apprenticeships	2	2	2	-	-
Other	1	2	1	-	1
Total human resources	17	11	9	5	4
Information management					
Support	1	1	-	2	1
Projects	2	1	-	-	-
Licences	-	-	-	-	-
Business operations	12	20	17	15	14
Other	-	-	-	-	-
Total information management	15	22	17	17	15
Finance	3	5	5	7	7
Business Change	2	2	-	-	2
Contracts & Procurement	2	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	2	2	2
Planning & development	4	-	1	-	-
Safety & compliance	5	-	-	-	-
Other corporate services	15	4	4	2	6
Commercial property	27	14	12	14	13
Infrastructure Projects	(16)	(5)	(4)	(6)	(6)
Route Services	3	4	4	5	2
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	37	-	-	-	-
National delivery service	2	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	9	10	12	12
Network Rail Telecoms	-	12	10	8	7
Digital Railway	-	4	5	5	3
Safety Technical & Engineering	-	11	10	8	8
Government & Corporate Affairs	-	4	3	3	2
Business Services	-	5	4	6	3
Route Asset Management	-	-	(1)	(1)	(1)
Legal and inquiry	-	3	2	2	2
Group/central					
Pensions	1	-	-	-	-
Insurance	9	13	14	(2)	8
Redundancy/reorganisation costs	17	4	3	3	3
Staff incentives/Bonus Reduction	2	(6)	(2)	-	(2)
Accommodation & Support Recharges	(2)	(8)	(7)	(8)	(7)
Commercial claims settlements	(1)	-	(2)	-	-
ORR financial penalty	20	(6)	-	-	-
Other	1	-	-	(1)	3
Total group/central costs	47	(3)	6	(8)	5
Total support	163	103	99	81	86
Total network operations and support costs	291	224	238	214	220

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), London North West – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	155	109	(46)	611	460	(151)	154
Signalling	56	37	(19)	208	151	(57)	53
Civils	42	35	(7)	145	144	(1)	43
Buildings	12	12	-	33	47	14	9
Electrical power and fixed plant	31	24	(7)	119	101	(18)	29
Telecoms	7	4	(3)	26	17	(9)	7
Other network operations	45	47	2	171	199	28	33
Asset management services	7	8	1	40	35	(5)	11
National Delivery Service	(2)	11	13	(7)	43	50	(2)
Property	-	1	1	6	4	(2)	1
Group	(6)	(4)	2	(26)	(18)	8	(5)
Total maintenance expenditure	347	284	(63)	1,326	1,183	(143)	333

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

In £m 2017-18 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 previous year. control period when efficiency targets set by the regulator were not fully realised. In addition, civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are higher than the previous year, reflecting increased reactive maintenance requirements. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling effecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but 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 base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17 with some extra expenses resulting from legal changes affecting overtime.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting legal changes to overtime and further deferrals of renewals programmes requiring extra asset maintenance instead.
- (4) Civils – costs were higher than the determination mainly as a result of extra civils inspection costs partly offset by savings in reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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 other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are in line with the determination which reflects higher inspections costs offset by lower levels of reactive maintenance required. The reductions in costs compared to the previous year are due to reduced reactive maintenance this year.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is in line with regulatory assumption and is lower in the control period to date due to less of this type of work being required. Variances in this category 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 – costs for the current year are higher than the regulator assumed, continuing the trend of earlier in the control period. The extra costs in the control period to date are largely a result of not achieving the efficiencies assumed in the determination as well as a transfer of certain responsibilities from the Other network operations category. This has helped that category make savings in the control period to date. Costs are broadly in line with the previous year.
- (7) Telecoms – costs are higher than the regulatory assumption this year and in the control period to date. This is largely due to difficulties in achieving the efficiency targets embedded in the determination for this asset, particularly around multi-skilling of staff. Although costs were broadly in line with the previous year the regulatory target assumes that costs reduce each year. Delays in renewals delivery (refer to Statement 9a) have also contributed as additional maintenance costs are required to keep the assets running in the required manner.
- (8) Other network operations – costs for the current year are largely in line with the regulator's expectation but lower in the control period to date. This is despite extra safety and performance improvement costs earlier in the control period. 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 re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are lower in the control period to date as activity assumed to be classified as Other network operations has been reported in the Telecoms and Electrical power and fixed plant categories to improve transparency. Costs are higher than the previous year as a result of the transfer of activity from this category to other headings within this statement (notably Asset management services) as part of the move towards a devolved railway with greater accountability given to local management teams who are closer to the passenger.
- (9) Asset management services – costs are consistent with the regulator's assumption this year but higher in the control period to date. This is mostly due to extra organisational requirements to understand and manage the assets in the route and slower than planned efficiency savings. Costs are lower than the previous year as some responsibility has been transferred to the cost centres within the Other network operations category.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (10) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous 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. As noted in Statement 9a, the strategy for sourcing the company's vehicle requirements has changed (leasing from a third party as opposed to outright capital purchase). This is expected to result in reduced income, albeit with a capital saving, in the final year of the control period.

Statement 9a: Summary analysis of renewals expenditure, London North West

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	92	136	44	712	545	(167)	166
Signalling	136	96	(40)	601	489	(112)	123
Civils	92	102	10	507	427	(80)	154
Buildings	25	28	3	178	164	(14)	54
Electrical power and fixed plant	32	26	(6)	105	164	59	32
Telecoms	10	12	2	61	98	37	16
Wheeled plant and machinery	12	27	15	70	126	56	18
Information Technology	19	19	-	119	83	(36)	22
Property	3	4	1	23	18	(5)	11
Other renewals	20	59	39	104	53	(51)	20
Total renewals expenditure	441	509	68	2,480	2,167	(313)	616

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially 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). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination due to higher underlying costs this control period. These higher costs have necessitated some activity being deferred into CP6 and beyond. Investment is lower than the previous year with decreases across most asset categories as Network Rail seeks to invest its limited funds in the most optimal way, which has included deferring activities to the final year of the control period and with greater resources redirected to Schedule 8 and maintenance and operations activities to compensate for lower than expected improvements.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (2) Track – costs are lower than the regulator assumed due to a combination of net deferrals of activity which have been partly 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 opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan across all categories, with Plain Line conventional Plain Line refurbishment, High Output, S&C and S&C refurbishment all expecting to have reductions of at least 25 per cent compared to the original CP5 plan. As noted above, Network Rail entered the control period with higher than assumed costs, efficiency plans in the determination have proved too bullish and access has been restricted which have all contributed to these higher underlying costs. In particular there were major efficiencies planned from High Output, which was a new delivery method being developed at the end of CP4, but these expected gains have proven to be over optimistic. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered across all of the main asset sub-categories.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was higher than the determination expected, continuing the trend of earlier years of the control period. The higher costs were due to underlying costs being more expensive than the regulator assumed partly alleviated by deferral of programmes. 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 and consequently, activity in this area is now expected to be lower than originally planned over the course of CP5. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. The intervention at Banbury has been delivered through this mechanism this control period. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Weaver to Wavertree, where contractor delays have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on Weaver to Wavertree and Birmingham New Street phase 6 contributed around £35m of extra investment this year compared to 2016/17. Conversely, as Bromsgrove Corridor resignalling project is now substantially complete, expenditure this year was nearly £20m lower than the previous year.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (4) Civils – expenditure in the year was lower than the regulator anticipated as higher underlying costs were mitigated by deferral of activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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 for the control period to date is higher than the determination expected with higher costs across most categories. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (emergency works have contributed extra costs this control period – most notably remediation works required on the Settle-Carlisle line following a landslip), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period. In addition, as noted in the prior year's regulatory financial statements the level of activity in 2016/17 included some significant remediation costs following damage to the network from externalities, most notably weather damage to the Settle-Carlisle line.
- (5) Buildings – expenditure in the year was slightly lower than the regulator anticipated but remains higher for the control period to date. This is due to higher like-of-like costs being partly mitigated by lower volumes of activity. The most noticeable category of extra investment this control period was in Franchised stations. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's ever increasing efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. 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 (June 2017) 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). There have been deferrals of some activity this control period within the Managed stations portfolio, including lower than planned renewals at Liverpool Lime Street and Birmingham New Street. Expenditure is lower than the previous year mainly due to lower investment at Franchised stations as more work was undertaken in earlier years of the control period compared to the regulator's assumption. Large projects delivered in the previous year included the completion of works at Manchester Victoria.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (6) Electrical power and fixed plant – costs were higher than the regulator's assumption this year which is due to higher underlying costs partly mitigated by deferrals of activity. 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 scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. 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 (June 2017) 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 in the control period to date is lower than the determination anticipated. This is partly due to delays across the portfolio. The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development have contributed to the slower rate of spend. This SCADA underspend in the control period to date is anticipated to be partly reduced in the final year of the control period where additional investment is expected in this programme. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment is consistent with the prior year.
- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. Some of the underspend in the control period to date is expected to be caught up in the remaining year of the control period as further programmes are designed and delivered. Expenditure for the control period to date is less than the regulator assumed with the largest contributor being Projects and other. Included in this category are discretionary schemes which have been deprioritised and are now planned to be delivered in Control Period 6. Expenditure is lower than the previous year, which included investment in licences and resilience projects as services are migrated from life-expired system.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are higher than the regulator's assumption in the control period to date. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. The higher expenditure is due to investment in new offices in Birmingham to replace leased premises and so yield operational cost savings.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2017-18 prices unless stated

(11) Other renewals includes the following notable items:

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure was lower than the previous year as programme milestones are delivered. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Intelligent infrastructure – expenditure is lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- 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. Whilst there is additional investment planned for the final year of the control period, not all of the shortfall witnessed so far is expected to be caught up. The overall reduction in investment is due to fewer appropriate schemes being identified and delivered this control period. Expenditure was higher than this previous year but still remains behind the ORR assumption for the year and the control period to date. This year's expenditure on the fund included work on the Merseyrail part of the network.
- d. Small plant – expenditure continues to be lower than the regulator's determination which is consistent with the slower than assumed delivery for Wheeled plant and machinery. This fund is used to procure many small, bespoke pieces of equipment so items are only purchased 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 optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway. Given the cash constraints faced by the organisation, funding has been redeployed to front line activities which have a more direct link to short term performance and safety. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

In £m 2017-18 prices unless stated

- e. Research and development – research and development activity in the control period to date has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has to be funded through renewals. As a result values are included for the first time this year. As there was no renewals funding in the determination this is included as underperformance 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)
- f. 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 with variances in the control period to date being reversed in the final year of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- g. CP4 rollover - following the end of the previous control period (CP4), 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. There is limited expenditure in the current year as the projects that have been rolled forward are now substantially complete.

Statement 9b: Detailed analysis of renewals expenditure, London North West

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	31	63	32	241	213	(28)
High output renewal	3	4	1	155	82	(73)
Plain line refurbishment	9	9	-	48	30	(18)
S&C renewal	28	29	1	138	114	(24)
S&C refurbishment	3	16	13	19	39	20
Track non-volume	5	10	5	41	45	4
Off track	13	5	(8)	70	22	(48)
Total track	92	136	44	712	545	(167)
Signalling						
Full conventional resignalling	102	44	(58)	368	280	(88)
Modular resignalling	-	9	9	-	16	16
ERTMS resignalling	-	3	3	-	5	5
Partial conventional resignalling	7	12	5	38	57	19
Targeted component renewal	1	2	1	5	13	8
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	1	1	-	1	1	-
Operating strategy other capital expenditure	7	4	(3)	46	42	(4)
Level crossings	3	4	1	22	18	(4)
Minor works	13	8	(5)	110	19	(91)
Centrally managed costs	2	9	7	11	38	27
Other	-	-	-	-	-	-
Total signalling	136	96	(40)	601	489	(112)
Civils						
Underbridges	28	46	18	162	180	18
Overbridges	12	8	(4)	45	33	(12)
Bridgeguard 3	2	-	(2)	20	-	(20)
Major structures	7	-	(7)	25	11	(14)
Tunnels	10	6	(4)	44	33	(11)
Other assets	9	11	2	42	44	2
Structures other	1	9	8	5	35	30
Earthworks	23	22	(1)	162	91	(71)
Other	-	-	-	2	-	(2)
Total civils	92	102	10	507	427	(80)
Buildings						
Managed stations	4	5	1	16	32	16
Franchised stations	17	18	1	131	113	(18)
Light maint depots	1	1	-	8	4	(4)
Depot plant	-	-	-	2	5	3
Lineside buildings	1	1	-	9	3	(6)
MDU buildings	2	2	-	11	6	(5)
NDS depots	-	1	1	1	1	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	25	28	3	178	164	(14)

Statement 9b: Detailed analysis of renewals expenditure, London North West - continued

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	1	1	-	4	16	12
Overhead Line	6	5	(1)	19	25	6
DC distribution	6	3	(3)	9	13	4
Conductor rail	-	1	1	1	3	2
SCADA	2	1	(1)	3	10	7
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	2	2	3	10	7
Fixed plant	17	13	(4)	66	87	21
Total electrical power and plant	32	26	(6)	105	164	59
Telecoms						
Operational communications	2	-	(2)	1	5	4
Network	1	4	3	4	11	7
SISS	1	3	2	11	22	11
Projects and other	1	3	2	4	36	32
Non-route capital expenditure	5	2	(3)	41	24	(17)
Total telecoms	10	12	2	61	98	37
Wheeled plant and machinery						
High output	1	2	1	21	30	9
Incident response	-	1	1	-	2	2
Infrastructure monitoring	1	2	1	4	5	1
Intervention	7	6	(1)	17	30	13
Materials delivery	1	-	(1)	11	2	(9)
On track plant	2	5	3	9	17	8
Seasonal	-	1	1	1	10	9
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	6	6
Road vehicles	-	9	9	4	24	20
S&C delivery	-	-	-	3	-	(3)
Total wheeled plant and machinery	12	27	15	70	126	56
Information Technology						
IM delivered renewals	17	17	-	107	74	(33)
Traffic management	2	2	-	12	9	(3)
Total information technology	19	19	-	119	83	(36)
Property						
MDUs/offices	1	3	2	18	13	(5)
Commercial estate	2	1	(1)	5	5	-
Corporate services	-	-	-	-	-	-
Total property	3	4	1	23	18	(5)
Other renewals						
Asset information strategy	6	7	1	36	43	7
Intelligent infrastructure	2	5	3	9	18	9
Faster isolations	7	9	2	11	37	26
LOWS	1	1	-	2	2	-
Small plant	1	3	2	5	11	6
Research and development	2	-	(2)	2	-	(2)
Phasing overlay	-	34	34	-	(58)	(58)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	37	-	(37)
Other	1	-	(1)	2	-	(2)
West Coast	-	-	-	-	-	-
Total other renewals	20	59	39	104	53	(51)
Total renewals	441	509	68	2,480	2,167	(313)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), London North West – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 10: Other information, London North West

In £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	44	47	3	205	194	(11)	46
Access charge supplement Income	(42)	(43)	(1)	(164)	(164)	-	(42)
Net (income)/cost	2	4	2	41	30	(11)	4

Schedule 8

Performance element income	(1)	-	1	(15)	-	15	(11)
Performance element costs	39	2	(37)	85	6	(79)	15
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	38	2	(36)	70	6	(64)	4

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	(5)	1	1
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	6	6	(1)
RSSB Costs	-	-	(1)
ORR licence fee and railway safety levy	(1)	(9)	(1)
Reporters fees	-	(3)	(1)
Other industry costs	-	2	-
Difference in CP4 opex memo	-	(2)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	-	(5)	(3)

Statement 10: Other information, London North West – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. The slightly lower figure this year is due to different inflation rates being used to calculate the contractual payment due by operators and the inflation rate ORR apply to their PR13 determination. Performance element costs are broadly in line with the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance. As the level of renewals activity decreased by more than the decrease in Schedule 4 costs financial underperformance has been recognised this year (refer to Statement 5a). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are higher than the regulatory assumption. This is a combination of undertaking less renewals activity partially offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). Costs are broadly in line with the previous year.

Statement 10: Other information, London North West – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included lineside fires at Harrow and South Hampstead as well as storm damage in June 2017. Also, the issue of network trespass was a particular challenge this year with the London North West route south of Rugby particular effected. Delays in this part of the network incur relatively large penalties which exacerbated the financial impact of these events. Whilst some positive steps are being taken (such as investment in higher fencing and other technology to minimise access, increased security patrols at known hotspots and working with the Samaritans) such disruption affects performance significantly. In addition, changes made unilaterally by an operator to the published timetable has increased pressure on performance. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. In addition, the number of network trespass and suicide incidents this year was noticeably higher than the previous year. Finally, one-off events this year had more of an impact that in the previous year, notably the impact of Storm Emma.
- (3) The opex memorandum currently shows a net neutral position for this year which is primarily due to changes in the Business Rates that Network Rail has had to endure this year compared to the regulatory assumption offset by losses made under the volume incentive mechanism. Well-publicised increases in Business Rates came into effect from April 2017 which has contributed to the value of the opex memorandum compared to the previous year and is expected to impact the for 2018/19 as well. The opex memorandum this year also includes penalties under the Volume Incentive (see Statement 12). There is a net loss under the Opex memorandum for the control period to date which suggests that Network Rail's income in the PR18 will be decreased to reflect the additional revenue received in CP5 subject to the regulator's overall funding decisions for CP6.

Statement 11:

There is no Statement 11 required for London North West

Statement 12: Volume incentives, London North West

In £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(13)	(3)	71	72	1.8%	1.56	pence per passenger train mile
Passenger farebox (millions)	2	0	2,147	2,057	3.5%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(7)	(1)	7	7	2.7%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	(6)	(1)	7,036	7,193	3.8%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	(24)	(5)					

The cumulative volume incentive is determined by the following calculation:

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

Where:
A_t = Actual in year quantity
B = 2017-18 baseline
C_t = 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 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result, reversing some of the gains made in earlier in the control period. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is the result of the continued structural decline in the freight market as well as slower passenger growth than the regulator expected. For the control period to date, Network Rail has marginally outperformed growth targets as, in earlier years of the control period, the decline in the freight market was compensated by additional passenger volumes.

Statement 14: Renewals volumes, unit costs and expenditure, London North West

In £m 2017-18 prices unless stated

FY18					Full Project			FY17		Full Project					
					A	B	C = A ÷ B						A	B	C = A ÷ B
Asset	Activity type	Unit	Volume unit	Cost £m	Total AFC £m	Total AFV unit	Unit Cost £k/unit	Volume unit	Cost £m	Total AFC £m	Total AFV unit	Unit Cost £k/unit			
Track	Conventional plain line Renewal	km	41	27	116	175	663	105	81	154	187	824			
	High Output Renewal	km	-	-	-	-	-	24	14	23	39	590			
	Plain line Refurbishment	km	6	7	10	46	217	26	9	11	51	216			
	S&C Renewal/Refurbishment	point ends	42	6	19	57	333	133	30	66	216	306			
	Track Drainage	lm	4,780	6	15	6,661	2	12,152	4	17	14,452	1			
	Fencing	km	52	1	30	678	44	124	5	27	647	42			
	Slab Track	km	1	4	10	1	10,000	-	-	-	-	-			
	Off track	km/No.	3	-	1	10	100	3	-	1	10	100			
	Other	-	-	-	-	-	-	-	-	-	-	-			
Total			-	51	201	-	-	-	143	299	-	-			
Signalling	Full Conventional Resignalling	SEU	159	17	70	159	440	237	22	75	237	316			
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-			
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-			
	Partial Conventional Resignalling	SEU	8	3	6	8	750	129	6	39	130	300			
	Targeted Component Renewal	SEU	-	-	-	-	-	-	-	-	-	-			
	ERTMS Train Fitment	-	-	-	-	-	-	-	-	-	-	-			
	ERTMS Other costs	-	-	-	-	-	-	-	-	-	-	-			
	Operating Strategy & Other	-	-	-	-	-	-	-	-	-	-	-			
	Level Crossings	No.	3	2	6	3	2,000	4	1	8	4	2,000			
	Minor Works	-	-	-	-	-	-	-	-	-	-	-			
	Centrally Managed Costs	-	-	-	-	-	-	-	-	-	-	-			
	Accelerated Renewals Signalling (CP6)	-	-	-	-	-	-	-	-	-	-	-			
	Other	-	-	-	-	-	-	-	-	-	-	-			
Total			-	22	82	-	-	-	29	122	-	-			
Civils	Underbridges	m ²	17,493	14	38	30,301	1	23,858	35	49	33,540	1			
	Overbridges (incl BG3)	m ²	1,774	6	10	1,774	6	4,548	7	12	4,548	3			
	Major Structures	-	-	-	-	-	-	-	-	-	-	-			
	Tunnels	m ²	6,340	7	11	10,024	1	10,448	5	12	10,448	1			
	Culverts	m ²	442	-	1	442	2	172	2	2	172	12			
	Footbridges	m ²	92	1	2	92	22	-	-	-	-	-			
	Coastal & Estuarial Defences	m	345	-	1	345	3	1,013	1	3	1,013	3			
	Retaining Walls	m ²	781	1	3	781	4	4,887	2	3	4,907	1			
	Structures Other	-	-	-	-	-	-	-	-	-	-	-			
	Earthworks	5-chain	319	13	46	680	68	400	16	47	756	62			
	EW Drainage	m	10,628	5	7	15,947	0	15,377	5	9	21,519	0			
	Other	-	-	-	-	-	-	-	-	-	-	-			
	Total			-	47	119	-	-	-	73	137	-	-		
Buildings	Buildings (MS)	m ²	672	-	1	774	1	7,399	-	1	7,399	0			
	Platforms (MS)	-	-	-	-	-	-	-	-	-	-	-			
	Canopies (MS)	m ²	-	-	-	-	-	-	-	-	-	-			
	Train sheds (MS)	m ²	-	-	-	-	-	-	-	-	-	-			
	Footbridges (MS)	-	-	-	-	-	-	-	-	-	-	-			
	Other (MS)	m ²	-	-	-	-	-	30	-	-	30	-			
	Buildings (FS)	m ²	190	-	1	210	5	8,109	2	3	10,857	0			
	Platforms (FS)	m ²	1,902	-	2	3,622	1	12,446	3	8	13,704	1			
	Canopies (FS)	m ²	118	-	-	118	-	5,181	3	8	6,240	1			
	Train sheds (FS)	m ²	10,837	3	13	10,837	1	-	-	-	-	-			
	Footbridges (FS)	m ²	85	1	2	85	24	135	5	5	135	37			
	Lifts & Escalators (FS)	-	-	-	-	-	-	-	-	-	-	-			
	Other (FS)	-	38,593	1	1	51,246	0	55,066	3	6	101,976	0			
	Light Maintenance Depots	m ²	-	1	-	3	-	13,359	-	2	20,655	0			
	Depot Plant	-	-	-	-	-	-	-	-	-	-	-			
	Lineside Buildings	m ²	1,929	1	4	9,701	0	4,801	1	5	11,140	0			
	MDU Buildings	m ²	9,655	1	4	10,406	0	5,834	-	3	7,427	0			
	NDS Depot	-	-	-	-	-	-	-	-	-	-	-			
	Other	-	-	-	-	-	-	-	-	-	-	-			
Total			-	8	28	-	-	-	17	41	-	-			

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	101	-	2	112	18
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	1	-	1	7	143	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	8	1	2	8	250	-	-	-	-	-
	HV cables DC	km	1	-	1	4	250	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	22	-	2	142	14
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	62	-	6	139	43	57	-	6	73	82
	Signalling Power Cables	km	21	6	46	121	380	-	-	-	-	-
	Signalling Supply Points	No.	1	-	1	20	50	5	-	3	20	150
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
Total			-	7	57	-	-	-	-	13	-	-
Telecoms	Customer Information Systems	No.	379	-	2	404	5	23	-	1	23	43
	Public Address	No.	624	-	4	629	6	90	-	-	105	-
	CCTV	No.	493	-	2	535	4	-	-	-	-	-
	Other Surveillance	No.	1	-	-	2	-	9	-	-	524	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	8	1	11	8	1,375
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	-	8	-	-	-	1	12	-	-

Statement 14: Renewals volumes, unit costs and expenditure, London North West – continued

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – In Conventional Plan Line Renewal there was a decrease in the unit cost in 2017-18 compared to the prior year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small.
- (3) Signalling – In both Full and Partial Conventional Re-signalling there has been an increase in the unit cost in the current year compared to 2016-17. However there were only a total of three projects across these two categories within the two years. The current year's project was Birmingham New Street which was a more complex job than the Banbury and Bromsgrove projects in the prior year.

Statement 14: Renewals volumes, unit costs and expenditure, London North West – continued

In £m 2017-18 prices unless stated

- (4) Civils – In Culverts there is a large decrease in the unit rate. This is due to the fact that in the current year there was one project that delivered over 75% of all the volumes compared to many projects in the previous year. This makes it difficult to compare an average unit cost because in the current year it is skewed towards the unit cost of this one project. There was an increase in the unit cost in Overbridges however each bridge is bespoke and even if there was a large sample size it is not logical to do unit cost analysis on this asset.
- (5) Buildings – There has been a decrease in the unit cost of Franchised Station Footbridges. Footbridges in stations are completely bespoke so the unit cost of a bridge would depend on the size, design and what material the bridge is made out of. Therefore it is not useful to compare the unit cost between years on this asset.
- (6) Electrical Power & Fixed Plant – The unit cost for Signalling Supply Points has decreased in the year. There was only one project across both years in this category. The anticipated final cost of this project reduced in the year even though the final amount of volumes delivered remained the same.
- (7) Telecoms – There has been a big decrease in the unit cost of Customer Information Systems in the current year. The reason is down to the size of the jobs. Last year there was only two small jobs delivering volumes at Manchester Piccadilly and Blackpool with a total volume just 23. In the current year there was more than twenty times that amount. Due to the difference in scale between the two years it is meaningless to do any useful variance analysis.

Statement 1: Summary regulatory financial performance, Sussex

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	194	196	(2)	786	783	3	194
Fixed Income	16	16	-	61	61	-	14
Variable Income	100	112	(12)	407	432	(25)	98
Other Single Till Income	92	94	(2)	340	352	(12)	87
Opex memorandum account	(5)	-	(5)	(13)	-	(13)	(8)
Total Income	397	418	(21)	1,581	1,628	(47)	385
Operating expenditure							
Network operations	68	33	(35)	234	130	(104)	68
Support costs	29	30	1	114	128	14	24
Traction electricity, industry costs and rates	51	67	16	215	244	29	53
Network maintenance	75	55	(20)	285	243	(42)	69
Schedule 4	18	14	(4)	85	56	(29)	24
Schedule 8	21	-	(21)	116	-	(116)	47
Total operating expenditure	262	199	(63)	1,049	801	(248)	285
Capital expenditure							
Renewals	154	176	22	708	666	(42)	177
PR13 enhancement expenditure	95	112	17	401	356	(45)	96
Non PR13 enhancement expenditure	1	-	(1)	6	-	(6)	1
Total capital expenditure	250	288	38	1,115	1,022	(93)	274
Other expenditure							
Financing costs	134	118	(16)	404	411	7	107
Corporation tax (received)/paid	-	-	-	-	1	1	-
Total other expenditure	134	118	(16)	404	412	8	107
Total expenditure	646	605	(41)	2,568	2,235	(333)	666

Statement 1: Summary regulatory financial performance, Sussex – continued

In £m 2017-18 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 in the other statements of this document.
- (2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year and the control period to date is in step with the determination.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target with the lower electricity being the overwhelming contributor.
- (5) Income – Other single till income in the year is lower than the determination assumption mainly due to lower property rental income, partly offset by additional services offered to operators. Income for the control period to date is lower than expected, mainly due to the same reasons. Income is higher than the previous year due to extra property sales. These variances are set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – this includes losses from the volume incentive mechanism and other compensation for uncontrollable variances to the regulator's assumptions in accordance with the Regulatory Accounting Guidelines (June 2017). This year, negative amount reported in the current year is largely due to costs recognised on the volume incentive and lower Business rates costs. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Support costs are in line with the determination this year but favourable in the control period to date reflecting efficiencies made across the business and non-recurring savings achieved by Group. Support costs are higher than the previous year which, as noted in last year's Regulatory financial statements, benefited from an actuarial reassessment of insurance liabilities. Support costs are discussed 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 (offset by lower recoveries of these costs from operators through income). Traction electricity, industry costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Sussex – continued

In £m 2017-18 prices unless stated

- (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. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are higher than the determination mostly due to higher average costs of possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs this year are lower than the previous year which reflects reductions in renewals activities requiring possessions. Schedule 4 costs are discussed 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. Increased network traffic, infrastructure failures and some one-off incidents, notably the snow that Storm Emma brought, contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved and were impacted by industrial action in 2016/17. Performance penalties are lower than the previous year which was effected by the aforementioned industrial action. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to net deferrals of activity partially offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred. Spend is in line with the PR13 target if this regulatory adjustment is excluded. Renewals are lower than the previous year with decreases across almost all categories as Network Rail seeks to invest its limited funds in the most optimal way. As the regulator expected more renewals work was undertaken in earlier years of the control period. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes but with the largest contribution from Sussex traction programme. Expenditure in the control period to date is higher than the regulatory baseline as parts of the Thameslink programme has been accelerated. These variances are set out in more detail in Statement 3.
- (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 so the higher investment in the current year and the control period to date is axiomatic. Expenditure in the current year was limited. These items are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Sussex – continued

In £m 2017-18 prices unless stated

- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are higher than the determination due to higher levels of average net debt in the year compared to the regulatory assumption. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Sussex

In £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	3,037	2,855	182
Indexation to 2016-17 prices	246	231	15
Opening RAB for the year (2016-17 prices)	3,283	3,086	197
Indexation for the year	127	120	7
Opening RAB (2017-18 prices)	3,410	3,206	204
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	152	176	(24)
PR13 enhancements	99	69	30
Non-PR13 enhancements	1	-	1
Total enhancements	100	69	31
Amortisation	(158)	(158)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2018	3,504	3,293	211

RAB Regulatory financial position - cumulative, Sussex

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	2,940	3,147	3,297	3,410	2,940
Adjustments for the actual capital expenditure outturn in CP4	84	-	-	-	84
Renewals	160	192	168	152	672
PR13 enhancements	108	103	96	99	406
Non-PR13 enhancements	1	1	1	1	4
Total enhancements	109	104	97	100	410
Amortisation	(146)	(146)	(152)	(158)	(602)
Adjustments for under-delivery of regulatory outputs	-	-	-	-	-
Closing RAB	3,147	3,297	3,410	3,504	3,504

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

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (3) The opening RAB for the year is noticeably higher than the regulator anticipated in its' determination. A significant contributor to this is additional investment undertaken by Network Rail towards the end of CP4, after the ORR had published PR13.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to 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 is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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. This year, there has been minimal investment in this category.
- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

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

In £m 2017-18 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	176	165	150	176	667
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	58	-	-	-	58
Capitalised financing on CP4 deferrals	1	2	3	3	9
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (renewals)	235	167	153	179	734
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(117)	(6)	(17)	(38)	(178)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)	(5)	(6)	(7)	(20)
Adjustments for efficient overspend	55	43	41	16	155
Capitalised financing on efficient overspend	1	3	5	7	16
25% retention of efficient overspend	(15)	(11)	(8)	(4)	(38)
Capitalised financing on efficient overspend 25% retention	-	(1)	(1)	(2)	(4)
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	1	-	7
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	-	-	1	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	160	192	168	152	672
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	-	1	(1)	(1)	(1)
Adjustment for 25% retention of efficient overspend	15	10	8	3	36
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	(2)	-	2	-	-
Total actual renewals expenditure (see statement 9)	173	203	177	154	707

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

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	70	58	92	69	289
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	-	42	(19)	43	66
Capitalised financing on Baseline adjustments	-	1	1	2	4
Adjustments to DfT funding	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (enhancements)	77	94	74	114	359
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	31	2	5	(14)	24
Capitalised financing on acceleration / (deferrals) of expenditure	1	-	2	1	4
Adjustments for efficient overspend	-	-	4	2	6
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	-	8	12	(5)	15
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	(1)	(1)	1	(1)
Capitalised financing relating to projects with tailored protocols or fixed price	-	-	1	1	2
Adjustments for efficient overspend through spend to save framework	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	(1)	-	-	-	(1)
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	108	103	96	99	406
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	2	1	1	1	5
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of 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	1	1	4
Total enhancements (added to the RAB - see statement 2a)	109	104	97	100	410
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	(1)	(2)	(4)	(4)	(11)
Adjustment for 25% retention of efficient overspend	1	1	3	-	5
Other Adjustments	1	-	-	-	1
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	16	11	3	46	76
Other adjustments	-	-	-	-	-
Total actual enhancement expenditure (see statement 3)	126	114	99	142	481

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

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening three years of the control period, 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 (June 2017), 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 June 2017) 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 with notable contributions from Track. 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.

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

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure. The reduction reported in the current year reflects decreased planned expenditure in this category across the whole control period compared to planned levels of investment included in Business Plans earlier in the control period.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. The increase reported in the current year reflects the reduced expenditure on such schemes compared to earlier plans as noted above.
- (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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, 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 first year of the control period were reversed in the second year of the control period.
- (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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Thameslink).

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

In £m 2017-18 prices unless stated

- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programmes have been re-profiled into CP6 and beyond.
- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), 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 June 2017) 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, with notable contributions from Redhill additional platform project. Efficient overspend is classified as 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). The credit balance in the year reflects an update to the control period to date position.
- (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 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 3: Analysis of enhancement capital expenditure, Sussex

In £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	4	9	5	6	10	4
Stations - Access for All (AfA)	-	(3)	(3)	3	2	(1)
Development	2	(8)	(10)	43	31	(12)
Level crossing safety	2	6	4	4	8	4
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	-	-	-	-	-	-
Total funds	8	4	(4)	56	51	(5)
Committed projects						
Thameslink	11	3	(8)	95	50	(45)
Total committed projects	11	3	(8)	95	50	(45)
Named schemes						
Airports & Ports:						
Redhill additional platform	33	33	-	58	57	(1)
Total airports & Ports	33	33	-	58	57	(1)
HLOS capacity metric schemes						
Uckfield line train lengthening	-	(1)	(1)	20	20	-
Sussex traction power supply upgrade	50	67	17	83	104	21
London Victoria station capacity improvements	-	-	-	1	1	-
Total HLOS capacity metric schemes	50	66	16	104	125	21
CP4 Project Rollovers						
Battersea Park Station Platform Lengthening	-	-	-	-	-	-
Gatwick Airport Remodelling and Passenger Capacity	-	-	-	4	6	2
East Croydon Passenger Capacity Scheme	-	-	-	1	1	-
Station security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	-	-	5	7	2
Other projects						
Seven day railway projects	-	1	1	15	15	-
ERTMS Cab fitment	-	(1)	(1)	-	-	-
R&D allowance	-	-	-	-	1	1
Income generating property schemes	3	6	3	78	50	(28)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	(10)	-	10	(10)	-	10
Total other projects	(7)	6	13	83	66	(17)
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	95	112	17	401	356	(45)
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	1	-	(1)	3	-	(3)
Total Government sponsored schemes	1	-	(1)	3	-	(3)
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)	6	-	(6)
Total Network Rail funded enhancements (see Statement 1)	96	112	16	407	356	(51)
Third Party PAYG	46	-	(46)	76	-	(76)
Total enhancements (see statement 2b)	142	112	(30)	483	356	(127)

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

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 Thameslink). The terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £96m (as shown in Statement 1). This comprises the total enhancement figure in the table above £142m less the PAYGO schemes funded by third parties (£46m).
- (5) Investment expenditure this year was broadly in line with the previous year as delivery of the enhancement portfolio continues to make significant progress.
- (6) 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 review) 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. Overall, expenditure in this category this year was higher than the baseline, mainly due to changes made by DfT to the funding available. Noteworthy variances between expenditure in the year and the baseline are set out below:

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

In £m 2017-18 prices unless stated

- a. Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Expenditure is less than the baseline in the current year resulting in underspend in the control period to date. Notable projects this year included Bognor Regis and Eastbourne stations.
 - b. 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. Investment in the year was higher than the baseline, which was adjusted by DfT this year. As a result the expenditure in the control period to date is now in line with the baseline.
 - c. Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is higher than the baseline which was adjusted by DfT this year. The variances in the current year are driving the control period to date variance. This overspend is anticipated to be recovered next year.
 - d. Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year and control period to date is lower than the Hendy baseline as fewer schemes with a sufficient business case have been identified.
- (7) PR13 funded schemes – Committed Projects – the only programme in this category is Thameslink – a pan-route programme which aims is to increase the frequency with which services could operate on this part of the rail network. Expenditure in the year is higher than the baseline, which adds to the overspend in the control period to date. Part of this is due to underperformance and 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).
- (8) PR13 funded schemes – named schemes - there is only one programme in this category: Redhill additional platform – a project which 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. However, as the project is now expected to cost more than the baseline over its life cycle (arising from extra work to meet timetable commitments) some financial underperformance has been reported for CP5 (refer to Statement 5c).
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is dominated by Sussex traction power supply upgrade programme. The control period to date variance is driven by this programme too. 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 in the year and the scheme to date is broadly in line the baseline as the programme is substantially complete.

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

In £m 2017-18 prices unless stated

- 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 of the Thameslink Programme. Expenditure for the year is below target which has resulted in an underspend in the control period to date. This has been partly caused by delays (which are expected to be caught up in the final year of CP6), but also due to the recognition of financial outperformance (refer to Statement 5a).
- 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.

(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. There is no expenditure in this category this year as the projects have now substantially completed. The main programme in the control period to date is Gatwick Airport Remodelling and Passenger Capacity – a project which 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 is in line with the Hendy baseline for the current year and the control period to date as this programme is substantially complete.

(11)Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline mainly due to the receipt of a capital grant from DfT in the year, an element of which was attributed to all operational routes, which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Notable variances to the baseline include:

- a. Seven day railway projects – Expenditure is in line with the baseline in the current year as the programme is now substantially complete.
- 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 6a). 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 current year is lower than the regulator's target, but higher for the control period to date. Expenditure for the control period to date is higher than the baseline as Network Rail seeks to take advantage of opportunities to develop its commercial estate to generate economic returns. Investment in the control period includes investment at Haywards Heath station.

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

In £m 2017-18 prices unless stated

- c. Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period to date which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry and the funds to complete such projects. As part of the Hendy review, the scarce funds available were diverted onto those programmes that were considered to deliver better strategic outputs for the industry. As a result, funding available for this category was minimised.
- d. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme in England & Wales, an element of which was apportioned to each of the routes. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB (refer to Statement 2a).

(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 2a) or recognised as financial performance (refer to Statement 5c) 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. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.
- b. PAYGO – as noted above, DfT made a cash contribution to the enhancement portfolio in England & Wales this year, an element of which was allocated to each operational route. In addition, as reporting in the media DfT provided funding to improve services on this part of the network following disruption caused to passengers through industrial action in 2016/17.

Statement 4: Net debt and financial ratios, Sussex

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	2,541	2,228	(313)	1,846	1,804	(42)
Income						
Grant income	(194)	(196)	(2)	(754)	(750)	4
Fixed charges	(16)	(16)	-	(58)	(58)	-
Variable charges	(100)	(112)	(12)	(390)	(415)	(25)
Other single till income	(92)	(94)	(2)	(327)	(339)	(12)
Total income	(402)	(418)	(16)	(1,529)	(1,562)	(33)
Expenditure						
Network operations	68	33	(35)	225	126	(99)
Support costs	29	30	1	107	125	18
Traction electricity, industry costs and rates	51	67	16	205	234	29
Network maintenance	75	55	(20)	273	233	(40)
Schedule 4	18	14	(4)	83	53	(30)
Schedule 8	21	-	(21)	111	-	(111)
Renewals	154	176	22	677	637	(40)
PR13 enhancement	95	69	(26)	383	278	(105)
Non-PR13 enhancement	1	-	(1)	6	-	(6)
Total expenditure	512	444	(68)	2,070	1,686	(384)
Financing						
Interest expenditure on nominal debt - FIM covered	20	40	20	91	134	43
Interest expenditure on index linked debt - FIM covered	14	16	2	54	60	6
Expenditure on the FIM	16	26	10	71	93	22
Interest expenditure on government borrowing	45	-	(45)	90	-	(90)
Interest on cash balances held by Network Rail	-	(2)	(2)	(1)	(5)	(4)
Total interest costs	95	80	(15)	305	282	(23)
Accretion on index linked debt - FIM covered	38	38	-	90	129	39
Total financing costs	133	118	(15)	395	411	16
Corporation tax	-	-	-	-	1	1
Other	66	-	(66)	68	32	(36)
Movement in net debt	309	144	(165)	1,004	568	(436)
Closing net debt	2,850	2,372	(478)	2,850	2,372	(478)

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	0.31	-0.19	-0.55	-0.20	0.77
FFO/interest	2.95	2.94	2.65	1.47	2.74
Net debt/RAB (gearing)	70.1%	73.0%	77.4%	81.4%	72.0%
FFO/debt	7.6%	5.5%	4.1%	4.9%	9.3%
RCF/debt	4.4%	2.6%	1.1%	1.6%	5.9%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.4%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	n/a

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

In £m nominal unless otherwise stated

Note:

- (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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Sussex as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to Sussex 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) Net debt attributable to Sussex at 31 March 2018 is £0.5bn 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, higher net operating costs and movements in working capital have driven increases in debt.
- (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 other 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 as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(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 made 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 higher than the regulator assumed this year. This is primarily due to higher levels of average debt in the year. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are marginally higher than the previous year which, *ceteris paribus*, is expected as the interest expense on index-linked debt in the previous year is added to the principle for future years and there are no scheduled repayments of this type of debt in the current control period. Additionally, RPI this year has been higher than the previous year, thus increasing the interest expense recognised in 2017/18.
- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year.

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

In £m nominal unless otherwise stated

- 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are broadly in line with the regulatory assumption for the current year. This was due to higher inflation rates compared to the regulatory expectation offset by lower levels of this type of debt. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of funding made available during the course of construction on enhancement projects.

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

In £m nominal unless otherwise stated

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

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail not to cover its interest costs through its trading profits (including an assumption for steady state renewals) so that any emerging risks would have 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 Maintenance costs as described elsewhere in these accounts. The improvement in this ratio compared to the previous year is mostly due to lower performance regime costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period).

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

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

In £m nominal unless otherwise stated

- (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 2017/18 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. 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 absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements. The ratio is higher than the previous year which, given the nature of Network Rail's business is to be expected.
- (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 adverse variance to the regulator's assumption is due to higher operating costs than planned, notably 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 but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4) and adverse movements in working capital. The improvement in the ratio compared to the previous year is mainly due to improvements in the performance regime this year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Sussex

In £m 2017-18 prices unless stated

2017-18								
	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 $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	194	196	(2)	(2)	-	-	-	-
Fixed Income	16	16	-	-	-	-	-	-
Variable Income	65	65	-	-	-	-	-	-
Other Single Till Income	92	94	(2)	-	-	-	(2)	(2)
Opex memorandum account	(5)	-	(5)	(3)	-	-	(2)	(2)
Total Income	362	371	(9)	(5)	-	-	(4)	(4)
Expenditure								
Network operations	68	33	(35)	-	-	-	(35)	(35)
Support costs	29	30	1	1	-	-	-	-
Industry costs and rates	17	18	1	2	-	-	(1)	(1)
Traction electricity	(1)	1	2	-	-	-	2	2
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	75	55	(20)	-	(2)	-	(18)	(18)
Schedule 4 costs	18	14	(4)	-	2	-	(6)	(6)
Schedule 8 costs	21	-	(21)	-	-	-	(21)	(21)
Renewals	154	176	22	3	35	-	(16)	(4)
PR13 Enhancements	95	112	17	-	14	-	3	-
Non PR13 Enhancements	1	-	(1)	-	(1)	-	-	-
Financing Costs	134	118	(16)	(16)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	611	558	(53)	(10)	49	-	(92)	(83)
Total:			(62)	(15)	49	-	(96)	(87)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(87)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(43)
Under-delivery of train performance requirements (CaSL)								(16)
Missed milestones for asset management - data quality								(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(60)
Total financial out / (under) performance to be recognised								(147)

Statement 5a: Total financial performance, Sussex - continued

In £m 2017-18 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	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	786	783	3	3	-	-	-	-
Fixed Income	61	61	-	-	-	-	-	-
Variable Income	263	266	(3)	-	-	-	(3)	(3)
Other Single Till Income	340	352	(12)	-	-	-	(12)	(12)
Opex memorandum account	(13)	-	(13)	(9)	-	-	(4)	(4)
Total Income	1,437	1,462	(25)	(6)	-	-	(19)	(19)
Expenditure								
Network operations	234	130	(104)	-	-	-	(104)	(104)
Support costs	114	128	14	2	-	-	12	12
Industry costs and rates	66	70	4	8	-	-	(4)	(4)
Traction electricity	5	7	2	-	-	-	2	2
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	285	243	(42)	-	3	-	(45)	(45)
Schedule 4 costs	85	56	(29)	-	4	-	(33)	(33)
Schedule 8 costs	116	-	(116)	-	-	-	(116)	(116)
Renewals	708	666	(42)	6	108	-	(156)	(39)
PR13 Enhancements	401	356	(45)	-	(22)	-	(23)	(4)
Non PR13 Enhancements	6	-	(6)	-	(6)	-	-	-
Financing Costs	404	411	7	7	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	1	1	-	1	-	-	-
Total Expenditure	2,424	2,069	(355)	23	89	-	(467)	(331)
Total:			(380)	17	89	-	(486)	(350)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(350)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(152)
Under-delivery of train performance requirements (CaSL)								(60)
Missed milestones for asset management - data quality								(1)
Missed milestones for Offering Rail Better Information Services (ORBIS)								(2)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(215)
Total financial out / (under) performance to be recognised								(565)

Statement 5a: Total financial performance, Sussex - continued

In £m 2017-18 prices unless stated

	2017-18			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)	(47)	12	(144)	(166)	22
Total variance not included in total	(35)	(47)	12	(144)	(166)	22
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	-	-	-	1	-	1
Total variance not included in total	1	-	1	2	-	2
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction	35	47	(12)	144	166	(22)
Total variance not included in total	35	47	(12)	144	166	(22)
Breakdown of variance not included in total financial performance - Renewals:						
Investment of CP4 long distance financial penalty	3	-	3	6	-	6
Total variance not included in total	3	-	3	6	-	6

Statement 5a: Total financial performance, Sussex – continued

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 assess 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 – whilst targets were achieved in 2017/18, income has been lower than target in the control period to date mostly as a result of lower capacity charges. 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. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Sussex – continued

In £m 2017-18 prices unless stated

- (3) Other single till income – this year, financial underperformance has been reported mainly due to lower property rental income than the regulator assumed. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. The control period to date variance is largely driven by the same factors. Other single till income is set out in more detail in Statement 6a.
- (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 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 and in the control period to date. Slower passenger revenue growth this year have resulted in financial underperformance being recognised this year. This compounds underperformance last year owing to reduced passenger numbers arising from industrial action, as widely-reported in the media. The volume incentive is discussed in more detail in Statement 12.
- (5) Network operations higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Network Rail has also chosen to invest in performance improvement schemes. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

Statement 5a: Total financial performance, Sussex – continued

In £m 2017-18 prices unless stated

- (6) Support costs – costs are lower than the determination in the control period to date reflecting continued efficiencies made across the business. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D.
- (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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance). The control period to date position reflects similar factors to those noted above.
- (9) 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.

Statement 5a: Total financial performance, Sussex – continued

In £m 2017-18 prices unless stated

- (10) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (11) Schedule 4 costs – costs are higher than the determination assumed which is mainly due to higher average possession costs compared to the regulator's expectation partly offset by reductions in activity. When assessing financial performance, movements in activity are treated as neutral and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are higher than the regulatory assumption due to the higher underlying costs for the reasons noted above. In addition, adverse weather events during the control period have resulted in additional compensation payments to operators.

Statement 5a: Total financial performance, Sussex – continued

In £m 2017-18 prices unless stated

- (12) Schedule 8 costs – costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments.
- (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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (14) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with notable contributions this control period from Thameslink and Redhill additional platform. Individual programme variances are 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). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Sussex – continued

In £m 2017-18 prices unless stated

- (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 higher than the regulator expected mainly due to higher levels of average net debt during the year compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.
- (17) Corporation tax – no income tax payments have been made this year, although the control period to date position is favourable. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed at the end of the control period when a full picture is available.

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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.
- (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 2017/18, continuing the trend of the earlier years 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 2017/18, continuing the trend of earlier years 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.
- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.

Statement 5a: Total financial performance, Sussex – continued

In £m 2017-18 prices unless stated

- (5) Asset management – the regulator set targets about improvements in data quality that Network Rail were to deliver as part of the 2018 Strategic Business Plan process. Whilst there have been improvements this control period, especially in Track, Signalling and Civils, the level of progress was lower than the regulator expected in Electrical power and Telecoms. Consequently, a reduction to Regulatory financial performance has been included this year.

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

In £m 2017-18 prices unless stated

2017-18								
	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	(14)	(6)	(8)	(2)		(2)	-	-
Signalling	(5)	(1)	(4)	(1)		(1)	-	-
Civils	-	4	(4)	(1)		(1)	-	-
Buildings	22	22	-	-		1	(1)	-
Electrical power and fixed plant	5	5	-	-		-	-	-
Telecoms	2	2	-	-		-	-	-
Wheeled plant and machinery	5	5	-	-		-	-	-
IT	1	1	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	6	6	-	-		-	-	-
Total	22	38	(16)	(4)		(3)	(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	(23)	33	(56)	(14)		(14)	-	-
Signalling	36	84	(48)	(12)		(8)	(4)	-
Civils	(57)	(5)	(52)	(13)		(12)	(1)	-
Buildings	16	32	(16)	(4)		(1)	(3)	-
Electrical power and fixed plant	24	16	8	2		7	(5)	-
Telecoms	12	12	-	-		-	-	-
Wheeled plant and machinery	17	17	-	-		-	-	-
IT	(6)	(6)	-	-		-	-	-
Property	8	8	-	-		-	-	-
Other renewals	(69)	(77)	8	2		2	-	-
Total	(42)	114	(156)	(39)		(26)	(13)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

- (1) Negative financial performance has been recognised in the current year on Track, Signalling and Civils, compounding the underperformance reported in earlier years of the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

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

In £m 2017-18 prices unless stated

- (2) Track – there has been financial underperformance in the current year, continuing the trend of earlier in the control period. Approximately half of the underperformance this year was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The practical deliveries of using High Output delivery methods resulted in Sussex electing not to use this delivery method in 2017/18. However, there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which all contributed to the financial underperformance this year. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure. The underperformance for the control period to date is largely driven by the same factors.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets, continuing the trend from earlier years of the control period. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Victoria. 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 has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2017-18 prices unless stated

- (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. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network or assets being in a worse condition than expected, thus requiring additional remediation expenses.
- (5) Buildings – whilst no financial underperformance has been reported this year, underperformance has been recognised in the control period to date 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. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Franchised station canopy costs are a major contributor to the control period to date position. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty.
- (6) Electrical power and fixed plant – financial performance in the current year is neutral but there has been outperformance in the control period to date. This was largely driven by lower LV cable and Principle supply point unit costs compared to the regulatory baseline, which has been achieved through favourable procurement and delivery.
- (7) Other – this is made up of a number of different categories including the following:
- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
 - b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.

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

In £m 2017-18 prices unless stated

- c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constraints the activities required to build capacity for CP6 and beyond is now funded through renewals.
- d. CP4 rollover: 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. The underperformance recognised in the control period to date includes notable contributions from and FTN.

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

In £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Redhill additional platform	-	10	-	(10)	(3)
Thameslink	(8)	(13)	-	5	1
Seven day railway	1	1	-	-	-
Sussex traction power supply upgrade	17	10	-	7	2
Other Enhancements	6	5	-	1	-
Total	16	13	-	3	-

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Redhill additional platform	(1)	14	-	(15)	(4)
Thameslink	(45)	(28)	-	(17)	(3)
Seven day railway	-	(1)	-	1	1
Sussex traction power supply upgrade	21	14	-	7	2
Other Enhancements	(26)	(27)	-	1	-
Total	(51)	(28)	-	(23)	(4)

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

In £m 2017-18 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 and so 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 their 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 incoming 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). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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 expected to be higher than the funding allowance in the PR13. This is due to a number of factors and is a net position as there have been some parts of the programme which have delivered the outputs for less than expected. Notable areas of cost increase include: extra works around the London Bridge area (track, signalling and station works), increased traffic management expenditure, extra costs at Hither Green owing to more complex signalling layout. These reasons have led to negative FPM being declared in 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 overspend. The size and complex nature of this programme means that there are a number of risks which need to be successfully managed to deliver the remainder of the programme within the latest forecast.

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

In £m 2017-18 prices unless stated

- (2) Redhill additional platform – as a result of expected increases in the total programme costs emerging this year, financial underperformance has been recognised this year and in the control period to date. These extra costs have emerged from additional work required to meet timetable commitments and improvements made to the original project designs to minimise on-going costs once the assets are operational. Additional contractor costs have also added to the expected project expenditure as detailed quotes received were higher than the original estimates. Also, access has been lost to other projects which has prolonged project timescales.
- (3) Sussex traction power supply upgrade – some savings have been achieved against the Hendy target on this programme. This has been achieved through efficient workbank planning, value engineering and tight control of programme contingencies.
- (4) 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. In addition, minor financial performance variances are captured through this heading.

Statement 5d: Total financial performance - REBS performance, Sussex

In £m 2017-18 prices unless stated

	A	B	C	D	E	F	G
				Cumulative to 2017-18			
	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	39	38	1	-	-	-	1
Capacity charge	178	182	(4)	-	-	-	(4)
Electricity asset utilisation charge	4	4	-	-	-	-	-
Property income	161	171	(10)	-	-	-	(10)
Expenditure							
Network operations	234	123	(111)	-	-	-	(111)
Support costs	114	126	12	-	1	-	11
RSSB and BT Police	25	22	(3)	-	-	-	(3)
Network maintenance	285	245	(40)	-	-	-	(40)
Schedule 4 costs	85	47	(38)	(5)	-	-	(33)
Schedule 8 costs	116	-	(116)	-	-	-	(116)
Renewals	708	632	(76)	80	-	(117)	(39)
Total REBS performance			(385)	75	1	(117)	(344)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(152)
Under-delivery of train performance requirements (CaSL)							(60)
Missed milestones for asset management - data quality							(1)
Missed ORBIS milestones							(2)
Total adjustment for under delivery of outputs and reduced sustainability							(215)
Cumulative performance to end of 2017-18							(559)
Less cumulative outperformance recognised up to the end of 2016-17							(408)
Net REBS performance for 2017-18							(151)

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

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

In £m 2017-18 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	194	196	(2)	786	783	3	194
Franchised track access income							
Fixed charges	16	16	-	61	61	-	14
Variable charges							
Variable usage charge	10	9	1	39	37	2	9
Traction electricity charges	35	47	(12)	144	166	(22)	35
Electrification asset usage charge	1	1	-	4	4	-	1
Capacity charge	45	45	-	178	182	(4)	44
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	9	10	(1)	42	43	(1)	9
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	100	112	(12)	407	432	(25)	98
Total franchised track access income	116	128	(12)	468	493	(25)	112
Total franchised track access and grant income	310	324	(14)	1,254	1,276	(22)	306
Other single till income							
Property income	45	53	(8)	167	188	(21)	41
Freight income	-	1	(1)	-	3	(3)	-
Open access income	-	-	-	-	-	-	-
Stations income	29	29	-	119	117	2	33
Facility and financing charges	3	3	-	10	12	(2)	1
Depots Income	14	7	7	41	30	11	11
Other income	1	1	-	3	2	1	1
Total other single till income	92	94	(2)	340	352	(12)	87
Total income	402	418	(16)	1,594	1,628	(34)	393

Statement 6a: Analysis of income, Sussex – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity). Income for the control period to date is lower than the regulatory target due to lower traction electricity income and property revenue partly offset by income earned from offering additional services to operators. Income is higher than the previous year with the largest contribution from additional property sales.

Statement 6a: Analysis of income, Sussex – continued

In £m 2017-18 prices unless stated

- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only 10.96 per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table. Grant income is in line with the previous year.

- (4) Fixed charges – fixed charge income is consistent with the regulatory expectation in the current year and the control period to date.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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). As market prices have been lower than the regulator assumed in each of the last four years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).

Statement 6a: Analysis of income, Sussex – continued

In £m 2017-18 prices unless stated

- (6) Property income – this is lower than the determination target this year mainly due to lower rental income earned through the commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Income in the control period to date is lower than the regulator assumed, due to lower property rental income and fewer property sales. As noted in previous years' 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. Income is higher than the previous year mainly due to extra property sales which benefit from the disposal of a Network Rail distribution centre as it seeks to raise funds to invest in its ambitious enhancement programme to improve the railway.
- (7) Stations income – revenue earned this year is in line with the regulatory expectation. Income is slightly lower than the previous year. As noted in last year's Regulatory financial statements, Sussex benefited from some non-recurring benefits in 2016/17 which boosted revenue.
- (8) Depots income revenue is revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators.

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Property Income							
Property rental	40	51	(11)	154	183	(29)	41
Property sales	5	6	(1)	13	22	(9)	-
Adjustment for commercial opex	-	(4)	4	-	(17)	17	-
Total property income	45	53	(8)	167	188	(21)	41
Freight income							
Freight variable usage charge	-	-	-	-	1	(1)	-
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	-	-	-
Freight only line charge	-	1	(1)	-	1	(1)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	-	1	(1)	-	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	5	5	-	22	20	2	5
Qualifying expenditure	5	4	1	21	17	4	5
Total managed stations income	10	9	1	43	37	6	10
Franchised stations income							
Long term charge	14	16	(2)	57	63	(6)	18
Stations lease income	5	4	1	19	17	2	5
Total franchised stations income	19	20	(1)	76	80	(4)	23
Total stations income	29	29	-	119	117	2	33
Facility and financing charges							
Facility charges	3	3	-	10	12	(2)	1
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	3	3	-	10	12	(2)	1
Depots income	14	7	7	41	30	11	11
Other	1	1	-	3	2	1	1
Total other single till income	92	94	(2)	340	352	(12)	87

Statement 6b: Analysis of other single till income (unaudited), Sussex – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	29	17	(12)	112	68	(44)	28
Signalling shift managers	2	1	(1)	9	4	(5)	2
Local operations managers	2	1	(1)	4	5	1	1
Controllers	4	3	(1)	13	10	(3)	4
Electrical control room operators	2	1	(1)	8	3	(5)	2
Total signaller expenditure	39	23	(16)	146	90	(56)	37
Non-signaller expenditure							
Mobile operations managers	3	2	(1)	10	9	(1)	2
Managed stations	6	3	(3)	23	12	(11)	6
Performance	4	1	(3)	9	4	(5)	3
Customer relationship executives	1	1	-	2	2	-	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	-	6	6	-
Other	6	1	(5)	16	4	(12)	9
Operations delivery	-	-	-	1	-	(1)	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	10	-	(10)	8
HQ - Stations and customer services	1	-	(1)	3	-	(3)	1
HQ - Other	11	2	(9)	24	9	(15)	4
Other operating income	(3)	(1)	2	(10)	(6)	4	(3)
Total non-signaller expenditure	29	10	(19)	88	40	(48)	31
Total network operations expenditure	68	33	(35)	234	130	(104)	68
Support costs							
Core support costs							
Human resources	1	3	2	6	12	6	1
Information management	3	3	-	13	12	(1)	3
Government and corporate affairs	-	1	1	4	4	-	-
Group strategy	1	1	-	3	4	1	-
Finance	1	1	-	5	6	1	1
Business services	1	1	-	4	4	-	1
Accommodation	6	10	4	29	43	14	7
Utilities	6	3	(3)	14	12	(2)	5
Insurance	2	3	1	10	13	3	(1)
Legal and inquiry	-	-	-	-	1	1	-
Safety and sustainable development	1	-	(1)	5	2	(3)	1
Strategic sourcing	-	-	-	2	2	-	1
Business change	1	1	-	1	1	-	-
Other corporate functions	5	1	(4)	14	1	(13)	5
Core support costs	28	28	-	110	117	7	24
Other support costs							
Asset management services	2	2	-	9	4	(5)	2
Network Rail telecoms	2	2	-	10	10	-	2
National delivery service	-	-	-	-	-	-	-
Infrastructure Projects	(2)	-	2	(6)	-	6	(2)
Commercial property	-	(1)	(1)	-	(2)	(2)	-
Group costs	(1)	(1)	-	(9)	(1)	8	(2)
Total other support costs	1	2	1	4	11	7	-
Total support costs	29	30	1	114	128	14	24
Traction electricity, industry costs and rates							
Traction electricity	34	48	14	149	173	24	38
Business rates	9	12	3	33	44	11	7
British transport police costs	6	5	(1)	23	20	(3)	6
RSSB costs	-	-	-	2	1	(1)	1
ORR licence fee and railway safety levy	2	1	(1)	7	4	(3)	1
Reporters fees	-	1	1	-	1	1	-
Other industry costs	-	-	-	1	1	-	-
Total traction electricity, industry costs and rates	51	67	16	215	244	29	53
Total network operations expenditure, support costs, traction electricity, industry costs and rates	148	130	(18)	563	502	(61)	145

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are slightly higher than the determination assumed this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised, partly offset by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a) and lower costs in central functions.
- (3) 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.
- (4) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Network Rail has also chosen to invest in performance improvement schemes. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are in line with the previous year.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs in line with the determination this year but lower in the control period to date reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.

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

In £m 2017-18 prices unless stated

- (6) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (7) Accommodation – these property expenses were lower than the determination, contributing to the control period to date saving. These lower costs were mainly due to some savings based on lower than planned occupancy levels, allowing parts of the estate to be sublet to other parts of the Network Rail organisation. Costs are comparable to the previous year.
- (8) Utilities – costs are higher than the determination this year. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs are lower than the previous year reflecting favourable market movements.
- (9) Insurance - costs are favourable to the determination for control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (10) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category. The extra investment includes delivery of 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 2017-18 prices unless stated

- (11) Other corporate functions – costs are higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance and Human resources as the work is now delivered locally. Costs are broadly line with the previous year.
- (12) Asset Management Services – costs were in line with the determination this year but higher in the control period to date. As noted in the prior year's Regulatory financial statements expenditure in 2015/16 included substantial programme development costs 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. As planned, many of the one-off costs of initiating the work stream were borne in 2015/16. In addition, the prior year included costs for the design and implementation of 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.
- (13) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (14) Group – Group costs are in line with the determination in the current year but favourable in the control period to date. 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 mainly due to lower performance related payments to staff and re-organisation costs. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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 costs for the control period to date benefit from a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5). The credit recognised in Group this year is in line with the previous year.

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

In £m 2017-18 prices unless stated

- (15) 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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator’s assumption in the current year and control period to date mainly due to lower traction electricity costs. Costs are in line with the previous year.
- (16) 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 lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise.
- (17) 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 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). Costs are higher than the previous year because, as noted in the previous year’s Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency.
- (18) British Transport Police costs - expenses in the year are higher than the determination assumed. 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. This year’s costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs in other routes (including Manchester Victoria and London Bridge). In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience. Costs in the current year are in line with the previous year.

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

In £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	20	31	29	31	31
MOMS	2	3	3	4	4
Control	3	4	5	6	6
Planning & Performance Staff Costs	2	1	4	7	8
Managed Stations Staff Costs	1	2	2	1	2
Operations Management Staff Costs	2	1	2	-	1
Other	10	4	10	19	16
Total operations & customer services costs	40	46	55	68	68
Total Network Operations	40	46	55	68	68
Support					
Human resources					
Functional support	2	1	1	1	1
Training (inc Westwood)	2	1	1	-	-
Graduates	-	-	-	-	-
Apprenticeships	-	-	-	-	-
Other	-	-	-	-	-
Total human resources	4	2	2	1	1
Information management					
Support	1	-	-	-	-
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	3	3	4	3	3
Other	-	-	-	-	-
Total information management	4	3	4	3	3
Finance	3	1	1	1	1
Business Change	-	-	-	-	1
Contracts & Procurement	1	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	-	-	1	-
Planning & development	1	1	1	-	1
Safety & compliance	2	-	-	-	-
Other corporate services	4	1	2	1	1
Commercial property	8	8	8	7	6
Infrastructure Projects	(4)	(1)	(1)	(2)	(2)
Route Services	1	2	2	4	4
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	11	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	3	1	5	6
Network Rail Telecoms	-	3	3	2	2
Digital Railway	-	1	2	1	1
Safety Technical & Engineering	-	2	3	2	2
Government & Corporate Affairs	-	1	1	-	-
Business Services	-	1	1	1	1
Route Asset Management	-	(1)	-	-	-
Legal and inquiry	-	-	-	-	-
Group/central					
Pensions	-	-	-	-	-
Insurance	3	3	5	(1)	2
Redundancy/reorganisation costs	4	1	-	-	-
Staff incentives/Bonus Reduction	-	(2)	-	-	-
Accommodation & Support Recharges	-	(1)	(2)	(2)	(1)
Commercial claims settlements	-	-	-	-	-
ORR financial penalty	5	(1)	-	-	-
Other	-	-	-	-	-
Total group/central costs	12	-	3	(3)	1
Total support	47	27	33	24	29
Total network operations and support costs	87	73	88	92	97

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Sussex – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	30	22	(8)	126	96	(30)	32
Signalling	11	7	(4)	42	34	(8)	10
Civils	8	5	(3)	30	22	(8)	11
Buildings	6	5	(1)	17	23	6	1
Electrical power and fixed plant	8	4	(4)	28	18	(10)	6
Telecoms	-	2	2	-	7	7	-
Other network operations	11	5	(6)	38	24	(14)	8
Asset management services	2	2	-	9	9	-	2
National Delivery Service	-	3	3	(3)	12	15	(1)
Property	-	1	1	2	3	1	1
Group	(1)	(1)	-	(4)	(5)	(1)	(1)
Total maintenance expenditure	75	55	(20)	285	243	(42)	69

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

In £m 2017-18 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 previous year. Control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by higher asset inspection costs. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling affecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17.

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

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous years of the control period, costs this year are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting legal changes to overtime.
- (4) Civils – costs were higher than the determination mainly as a result of extra civils inspection costs. Costs for the control period to date are higher than the regulator expected due to extra inspection costs partly offset by less reactive maintenance activity. The latter is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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 other main area of expenditure is asset inspections. Costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. The reductions in costs compared to the previous year is largely due to less reactive maintenance required this year.

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

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the control period to date is lower than the regulator assumed. Variances in this category 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 – costs for the current year are higher than the regulator assumed, compounding the additional spend in earlier years of the control period. Maintaining the appropriate level of asset performance and condition in this area has proved to be more costly than the regulator envisaged. This has been exacerbated by the reduction in renewals in this area (refer to Statement 9a) which has required more maintenance interventions to maintain asset condition.
- (7) Telecoms – the lower costs in the current year and the control period to date is due to a transfer of responsibility to Other network operations. This increases costs in that category.
- (8) Other network operations – costs for the current year are higher than the regulator's expectation and for the control period to date. This is mainly caused by extra safety and performance improvement costs as well as the aforementioned transfer of responsibilities from Telecoms. In the control period to date costs are also higher because, 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 re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are higher than the previous year as staff worked less on capital projects this year. When staff work on renewals projects their costs re charged to the capital project rather than to Maintenance.
- (9) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination.
- (10) 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).

Statement 9a: Summary analysis of renewals expenditure, Sussex

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	47	33	(14)	161	138	(23)	43
Signalling	46	41	(5)	145	181	36	32
Civils	18	18	-	121	64	(57)	32
Buildings	4	26	22	69	85	16	14
Electrical power and fixed plant	9	14	5	58	82	24	15
Telecoms	6	8	2	20	32	12	8
Wheeled plant and machinery	3	8	5	18	35	17	5
Information Technology	4	5	1	28	22	(6)	6
Property	4	4	-	7	15	8	2
Other renewals	13	19	6	81	12	(69)	20
Total renewals expenditure	154	176	22	708	666	(42)	177

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

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially than offset by higher underlying costs (notably in Track). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination which included an assumption that activity planned at an individual asset level would be deferred. Neutralising this regulatory assumption results in expenditure in line with the determination.
- (2) Track – costs are higher than the regulator assumed which is mostly due to higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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 in the control period to date is significantly higher than the regulator assumed which is a combination of higher underlying costs (for the reasons outlined above) partly offset by deferral of activity to remain within the overall funding available to the route. Deferrals are most evident in High Output where latest forecast volumes for the control period are approximately 10 per cent of the original CP5 plan as productivity improvements anticipated from this delivery methodology in CP5 have proven elusive. Expenditure in the current year was higher than the previous year mainly due to extra S&C volumes delivered in the current year.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was slightly higher than the regulatory assumption this year but remains behind for the control period to date. The control period to date position also includes financial underperformance so the level of activity deferred is actually higher than it may first appear. There have been deferrals of the portfolio (such as East Sussex Phase 2), or de-scoping of original plans (such as Arun Valley) due to overall affordability and delivery concerns. Spend has been higher in the Minor works category which reflects additional investment undertaken by the routes to improve asset condition and performance especially in light of the deferral of larger programmes. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Victoria. Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. This year more work was delivered on the Victoria resignalling scheme as the programme continues ahead of planned commissioning in 2018/19.
- (4) Civils – expenditure in the year was in step with the regulator's expectation which was a combination of higher underlying costs offset by deferral of activity. Costs in the control period to date are higher than the ORR assumption which is mostly due to higher underlying costs. Efficiencies assumed by the regulator have proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. Consequently, Civils financial underperformance has been recognised this control period (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 (June 2017) 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). The higher expenditure is due to remediation works required following damage to the network. Costs this year were lower than in 2016/17 which included works at Chelsea bridge, Shoreham viaduct and Arun river.

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

In £m 2017-18 prices unless stated

- (5) Buildings – expenditure in the year was significantly less than the regulator anticipated with significantly lower platform works delivered than planned at both Managed and Franchised stations. The lower investment in Franchised stations was largely a result of activity being completed earlier in the control period whereas the Managed stations reduction was largely due to resource constraints (financial and available access). Costs this control period have been higher than planned on a like for like basis due to difficulties achieving the regulator's efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. As a result Building financial underperformance has been recognised this control period (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 (June 2017) 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 investment on train shed projects.
- (6) Electrical power and fixed plant – costs were lower than the regulatory assumption, containing the trend of the control period to date. The SCADA programme is behind schedule, with activity in earlier years of the control period funded through the CP4 rollover project category (included within Other renewals) rather than from the Electrical power and fixed plant allowance. Delays in technology and software development alongside concentration of technical resources elsewhere have contributed to the slower rate of spend. This SCADA underspend in the control period to date is anticipated to be partly reduced in the final year of the control period where additional investment is expected in this programme. There are significant Fixed plant savings as alternative solutions have been sought, including leasing rather than buying the items, or incurring more maintenance costs to keep existing assets operational. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure. Investment was lower than the previous year with notable contributions from Switchgear replacement and Domestic wiring campaigns which both drew to a close.
- (7) Telecoms – expenditure in the control period to date is lower than the determination continuing the pattern from earlier in the control period. The largest contributor to the underspend is SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6. Expenditure is in line with the previous year.

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

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5).
- (9) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are lower than the regulator's assumption in the control period to date. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. Given the bespoke nature of these schemes annual expenditure can be uneven. The lower levels of investment reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity.

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

In £m 2017-18 prices unless stated

(11) Other renewals includes the following notable items:

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Faster isolations – expenditure this year is higher than the regulator assumed. The additional expenditure in the current year has resulted in an apparent overspend in the control period to date. This is due to projects being accelerated from later in the control period. Notable projects delivered in the year include work on the Brighton Main Line to improve ability to fix electrical faults.
- 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 with variances in the control period to date being reversed in the final year of the control period. 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 the previous control period (CP4), 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. Most of the programmes have not completed and so there is minimal expenditure in the current year.
- e. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail was to invest in this type of network improvement.

Statement 9b: Detailed analysis of renewals expenditure, Sussex

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	20	15	(5)	76	55	(21)
High output renewal	6	8	2	14	19	5
Plain line refurbishment	5	-	(5)	12	2	(10)
S&C renewal	6	2	(4)	29	31	2
S&C refurbishment	5	2	(3)	12	7	(5)
Track non-volume	-	1	1	4	6	2
Off track	5	5	-	14	18	4
Total track	47	33	(14)	161	138	(23)
Signalling						
Full conventional resignalling	29	15	(14)	87	76	(11)
Modular resignalling	-	-	-	-	-	-
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	-	8	8	-	25	25
Targeted component renewal	3	1	(2)	5	8	3
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	5	2	(3)	12	10	(2)
Level crossings	2	8	6	6	29	23
Minor works	7	5	(2)	34	24	(10)
Centrally managed costs	-	2	2	1	9	8
Other	-	-	-	-	-	-
Total signalling	46	41	(5)	145	181	36
Civils						
Underbridges	11	6	(5)	45	37	(8)
Overbridges	3	1	(2)	23	13	(10)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	15	1	(14)
Tunnels	1	2	1	3	7	4
Other assets	1	2	1	7	7	-
Structures other	-	3	3	2	(20)	(22)
Earthworks	2	4	2	26	19	(7)
Other	-	-	-	-	-	-
Total civils	18	18	-	121	64	(57)
Buildings						
Managed stations	1	9	8	9	26	17
Franchised stations	1	17	16	48	52	4
Light maint depots	-	-	-	7	4	(3)
Depot plant	-	-	-	-	-	-
Lineside buildings	1	-	(1)	3	1	(2)
MDU buildings	1	-	(1)	2	2	-
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	4	26	22	69	85	16

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	-	-	-
DC distribution	3	5	2	33	34	1
Conductor rail	1	2	1	10	11	1
SCADA	1	-	(1)	1	4	3
Energy efficiency	-	1	1	2	4	2
System capability / capacity	-	-	-	-	-	-
Other electrical power	1	1	-	3	4	1
Fixed plant	3	5	2	9	25	16
Total electrical power and plant	9	14	5	58	82	24
Telecoms						
Operational communications	1	3	2	3	6	3
Network	-	1	1	1	3	2
SISS	3	4	1	5	18	13
Projects and other	-	-	-	1	2	1
Non-route capital expenditure	2	-	(2)	10	3	(7)
Total telecoms	6	8	2	20	32	12
Wheeled plant and machinery						
High output	-	1	1	7	8	1
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	1	1	-	2	2
Intervention	2	2	-	4	8	4
Materials delivery	-	-	-	3	1	(2)
On track plant	1	1	-	2	5	3
Seasonal	-	-	-	-	3	3
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	2	2
Road vehicles	-	3	3	1	6	5
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	3	8	5	18	35	17
Information Technology						
IM delivered renewals	4	5	1	25	20	(5)
Traffic management	-	-	-	3	2	(1)
Total information technology	4	5	1	28	22	(6)
Property						
MDUs/offices	3	3	-	4	11	7
Commercial estate	1	1	-	3	4	1
Corporate services	-	-	-	-	-	-
Total property	4	4	-	7	15	8
Other renewals						
Asset information strategy	2	2	-	10	12	2
Intelligent infrastructure	-	2	2	2	5	3
Faster isolations	7	2	(5)	17	10	(7)
LOWS	-	-	-	1	1	-
Small plant	-	1	1	-	3	3
Research and development	-	-	-	-	-	-
Phasing overlay	-	12	12	-	(19)	(19)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	45	-	(45)
Other	4	-	(4)	6	-	(6)
West Coast	-	-	-	-	-	-
Total other renewals	13	19	6	81	12	(69)
Total renewals	154	176	22	708	666	(42)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Sussex – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 10: Other information, Sussex

In £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	18	14	(4)	85	56	(29)	24
Access charge supplement Income	(9)	(10)	(1)	(43)	(43)	-	(9)
Net (income)/cost	9	4	(5)	42	13	(29)	15

Schedule 8

Performance element income	-	-	-	-	-	-	-
Performance element costs	21	-	(21)	116	-	(116)	47
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	21	-	(21)	116	-	(116)	47

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	(2)	(4)	(4)
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(3)	(11)	(3)
RSSB Costs	-	-	(1)
ORR licence fee and railway safety levy	1	3	-
Reporters fees	(1)	(1)	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(5)	(13)	(8)

Statement 10: Other information, Sussex – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. The slightly lower figure this year is due to different inflation rates being used to calculate the contractual payment due by operators and the inflation rate ORR apply to their PR13 determination. Performance element costs are higher than the determination assumed which is mainly due to higher average possession costs compared to the regulator's expectation. The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are higher than the regulatory assumption due to the higher underlying costs for the reasons noted above. In addition, adverse weather events during the control period have resulted in additional compensation payments to operators. Costs are lower than 2016/17. This is due to lower renewals activity requiring possessions, notably signalling schemes.

Statement 10: Other information, Sussex – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are much greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Costs are lower than the previous year. As noted in last year's Regulatory financial statements, the well-publicised industrial action in 2016/17 in the South East of England resulted in train services being disrupted causing widespread difficulties for many members of the travelling public reliant on the train network to go about their daily lives. In addition, there were a greater number of one-off events which impacted the Sussex network in 2016/17 compared to the current year.
- (3) The opex memorandum currently shows a net loss for this year, compounding losses made in earlier years of the control period. These losses are primarily due to lower than expected Business rates costs and penalties under the Volume incentive mechanism (refer to Statement 12).

Statement 11:

There is no Statement 11 required for Sussex

Statement 12: Volume incentives, Sussex

In £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(2)	0	21	21	0.2%	1.56	pence per passenger train mile
Passenger farebox (millions)	(11)	(2)	776	838	3.4%	2.5%	% of additional farebox revenue
Freight train miles (millions)	0	0	0	0	1.3%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	0	0	122	111	1.7%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	(13)	(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:
A_t = Actual in year quantity
B = 2017-18 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Sussex – continued

In £m 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result, adding to the losses made last year. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of lower passenger farebox income.

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

In £m 2017-18 prices unless stated

		FY18		Full Project			FY17		Full Project			
				A	B	$C = A \div B$			A	B	$C = A \div B$	
Asset	Activity type	Unit	Volume unit	Cost £m	Total AFC £m	Total AFV unit	Unit Cost £k/unit	Volume unit	Cost £m	Total AFC £m	Total AFV unit	Unit Cost £k/unit
Track	Conventional plain line Renewal	km	41	20	52	129	403	38	21	49	115	426
	High Output Renewal	km	-	-	-	-	-	15	7	7	15	467
	Plain line Refurbishment	km	15	5	16	71	225	15	3	11	36	306
	S&C Renewal/Refurbishment	point ends	60	9	21	251	84	57	5	19	107	178
	Track Drainage	lm	3,553	2	5	10,627	0	4,668	1	4	8,043	0
	Fencing	km	8	-	3	44	68	10	1	3	29	103
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	108	2	11	443	25	98	2	7	251	28
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	38	108	-	-	-	40	100	-	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-	83	19	84	172	488
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Targeted Component Renewal	SEU	1	1	1	1	1,000	11	1	3	25	120
	ERTMS Train Fitment	-	-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	-	-	-	-	-	-	-	-	-	-
	Minor Works	-	-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	1	1	-	-	-	20	87	-	-
Civils	Underbridges	m ²	6,575	4	9	6,575	1	1,999	5	11	2,095	5
	Overbridges (incl BG3)	m ²	4,953	1	5	4,953	1	1,940	-	1	1,940	1
	Major Structures	-	-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	-	-	-	-	-	-	-	-	-	-
	Culverts	m ²	-	-	-	-	-	113	1	3	310	10
	Footbridges	m ²	45	-	1	45	22	668	1	2	668	3
	Coastal & Estuarial Defences	m	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m ²	-	-	-	-	-	58	-	-	58	-
	Structures Other	-	-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	62	1	4	199	20	119	5	15	191	79
	EW Drainage	m	5,426	1	2	15,532	0	3,978	1	2	9,841	0
	Other	-	-	-	-	-	-	-	-	-	-	-
	Total			-	7	21	-	-	-	13	34	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-	730	-	1	730	1
	Platforms (MS)	-	-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	1,581	-	1	2,108	0
	Train sheds (MS)	m ²	2,826	1	1	10,413	0	3,656	-	1	7,264	0
	Footbridges (MS)	-	-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	-	-	-	-	-	2,108	-	1	7,563	0
	Buildings (FS)	m ²	-	-	-	-	-	76	-	-	206	-
	Platforms (FS)	m ²	1,515	1	1	2,431	0	7,372	2	4	7,372	1
	Canopies (FS)	m ²	85	-	1	478	2	3,493	1	4	4,239	1
	Train sheds (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m ²	80	-	4	1,945	2	331	1	5	1,545	3
	Lifts & Escalators (FS)	-	-	-	-	-	-	-	-	-	-	-
	Other (FS)	-	1	-	-	1	-	-	-	-	-	-
	Light Maintenance Depots	m ²	-	-	-	-	-	9,008	4	8	17,203	0
	Depot Plant	-	-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	918	-	1	3,465	0	2,281	-	4	3,567	1
	MDU Buildings	m ²	-	-	-	-	-	-	-	-	-	-
	NDS Depot	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	2	8	-	-	-	8	29	-	-

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	22	1	6	56	107	11	1	8	60	133
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	3	1	1	3	333	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	4	1	2	9	222	4	1	2	5	400
	Transformer Rectifiers DC		1	-	1	1	1,000	-	-	-	-	-
	LV switchgear renewal DC	No.	1	-	-	1	-	29	3	8	48	167
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
	Signalling Power Cables	km	-	-	-	-	-	-	-	-	-	-
	Signalling Supply Points	No.	-	-	-	-	-	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
Total			-	3	10	-	-	-	5	18	-	-
Telecoms	Customer Information Systems	No.	130	1	4	579	7	-	-	-	-	-
	Public Address	No.	701	-	-	2,467	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	25	2	4	157	25	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		-	-	-	-	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	3	8	-	-	-	-	-	-	-

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

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – In Plain Line Refurbishment there was a decrease in the unit cost in 2017-18 compared to the prior year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. In S&C Renewal/Refurbishment in the current year there were a few major jobs which a high number of volumes and relatively low cost which led to a lower unit cost. These major jobs had skewed the data. There was a large decrease in the unit cost of fencing but there was only one project in each year so the sample is too small for any meaningful analysis.
- (3) Signalling – There were 25 volumes delivered in the Targeted Component Renewal category in 2016-17. In the current year there was only one. Therefore it is difficult to do any variance analysis between the two years as the sample sizes vary so much.

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

In £m 2017-18 prices unless stated

- (4) Civils – There was a decrease in the unit cost in Underbridges however each bridge is bespoke and even if there was a large sample size it is not logical to do unit cost analysis on this asset. There was a large increase in the unit cost of Footbridges. However in the current year there was only one job which was a replacement at Boswell Lane which makes it difficult to do any variance analysis due to the small sample size.
- (5) Electrical Power and Plant – There was only one project across the two years in the LV Cables DC category. The unit rate has gone down. This is because there were more volumes delivered in the current year than were forecast in the prior year even though the final expenditure on the project has not increased.

Statement 1: Summary regulatory financial performance, Wales

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	290	293	(3)	1,143	1,139	4	289
Fixed Income	24	25	(1)	90	90	-	21
Variable Income	23	23	-	113	110	3	32
Other Single Till Income	22	28	(6)	81	90	(9)	18
Opex memorandum account	(2)	-	(2)	(4)	-	(4)	(1)
Total Income	357	369	(12)	1,423	1,429	(6)	359
Operating expenditure							
Network operations	35	25	(10)	129	108	(21)	34
Support costs	18	19	1	79	89	10	21
Traction electricity, industry costs and rates	17	12	(5)	56	43	(13)	10
Network maintenance	69	64	(5)	287	265	(22)	70
Schedule 4	7	11	4	30	63	33	10
Schedule 8	3	-	(3)	2	1	(1)	1
Total operating expenditure	149	131	(18)	583	569	(14)	146
Capital expenditure							
Renewals	186	120	(66)	721	627	(94)	208
PR13 enhancement expenditure	175	264	89	487	556	69	184
Non PR13 enhancement expenditure	2	-	(2)	8	-	(8)	-
Total capital expenditure	363	384	21	1,216	1,183	(33)	392
Other expenditure							
Financing costs	118	119	1	361	403	42	93
Corporation tax (received)/paid	-	-	-	-	-	-	-
Total other expenditure	118	119	1	361	403	42	93
Total expenditure	630	634	4	2,160	2,155	(5)	631

Statement 1: Summary regulatory financial performance, Wales – continued

In £m 2017-18 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 in the other statements of this document.
- (2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly lower than the determination due to differences between inflation rates used to calculate fixed income payable by operators and the rates used to uplift the regulatory target. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year is in line with the determination but slightly favourable in the control period to date due to providing additional train services in response to customer demand. Income is lower than the previous year mainly due to lower Schedule 4 Access Charge Supplements. This type of income is contractually set through the determination so the decrease is in line with the regulator's plans. 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 mainly due to changes in the way the Welsh Valley Line programme is funded, which is offset by a corresponding saving in Financing costs. This has been partly offset by additional property sales. Income in the control period to date is lower than expected, mainly for the same reasons. These variances are 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 (June 2017). This year, negative amount reported in the current year is largely due to costs recognised on the volume incentive due to lower demand for freight and passenger services. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Wales – continued

In £m 2017-18 prices unless stated

- (9) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher British Transport Police costs, which has also driven the higher costs in the control period to date. Traction electricity, industry costs are discussed 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. Also, higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are broadly in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination due to cheaper average costs of possessions. Costs for the control period to date are lower than the determination due to a combination of activity being deferred and efficient possession management. Schedule 4 costs are discussed in more detail in Statement 10.
- (12) Operating expenditure – Schedule 8 costs are higher than the determination this year because, train performance did not meet the regulator's targets, negating some of the outperformance in earlier years of the control period. This year's performance was impacted by externalities, as discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is higher than the determination expected which is due to net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is higher than the determination for the same reasons. Renewals are lower than the previous year with decreases most evident in track and civils. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and is largely dominated by progress on electrification programmes. These variances are set out in more detail in Statement 3.
- (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 so the higher investment in the current year and the control period to date is axiomatic. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are in line with the determination this year but lower in the control period to date, largely arising from lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Wales

In £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,916	2,942	(26)
Indexation to 2016-17 prices	236	238	(2)
Opening RAB for the year (2016-17 prices)	3,152	3,180	(28)
Indexation for the year	122	123	(1)
Opening RAB (2017-18 prices)	3,274	3,303	(29)
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	165	120	45
PR13 enhancements	171	210	(39)
Non-PR13 enhancements	-	-	-
Total enhancements	171	210	(39)
Amortisation	(148)	(148)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2018	3,462	3,485	(23)

RAB Regulatory financial position - cumulative, Wales

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	2,828	2,943	3,049	3,274	2,828
Adjustments for the actual capital expenditure outturn in CP4	81	-	-	-	81
Renewals	128	155	187	165	635
PR13 enhancements	42	84	179	171	476
Non-PR13 enhancements	1	2	-	-	3
Total enhancements	43	86	179	171	479
Amortisation	(136)	(135)	(141)	(148)	(560)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	-	(1)
Closing RAB	2,943	3,049	3,274	3,462	3,462

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

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (3) The opening RAB for the year is lower than the regulator anticipated in its' determination as less work was completed in earlier years of the control period that was eligible for RAB addition, as outlined in the previous years' Regulatory financial statements.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed which was mostly due to 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 lower than the regulator assumed. The main reason was the impact of a cash grant received in the year from DfT as a contribution to the England & Wales enhancement portfolio, an element of which was attributed to each of the operational routes. This reduced the amount that could be logged up to the RAB.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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. There was minimal investment in this category in the current year.
- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.

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

In £m 2017-18 prices unless stated

- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	144	176	187	120	627
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	6	-	-	-	6
Capitalised financing on CP4 deferrals	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (renewals)	150	176	187	120	633
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(70)	(97)	(56)	(11)	(234)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(5)	(8)	(10)	(24)
Adjustments for efficient overspend	59	101	76	77	313
Capitalised financing on efficient overspend	1	5	8	12	26
25% retention of efficient overspend	(15)	(26)	(19)	(20)	(80)
Capitalised financing on efficient overspend 25% retention	-	(1)	(2)	(3)	(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	4	2	1	-	7
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	-	-	-	(1)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other adjustments	1	-	-	-	1
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	128	155	187	165	635
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	-	1	2	1	4
Adjustment for 25% retention of efficient overspend	16	27	19	20	82
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	-	-	-	-	-
Total actual renewals expenditure (see statement 9)	144	183	208	186	721

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

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	106	128	148	210	592
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	-	-	-	-	-
Capitalised financing on CP4 deferrals	-	-	-	-	-
Baseline adjustments	-	(95)	3	54	(38)
Capitalised financing on Baseline adjustments	-	(2)	(4)	(3)	(9)
Adjustments to DfT funding	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (enhancements)	106	31	147	261	545
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(63)	54	32	(89)	(66)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(1)	-	(1)	(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	-	-	-	-	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price 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)	42	84	179	171	476
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	2	1	-	2	5
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	(2)	(3)
Capitalised financing on non-PR13 enhancements expenditure	-	1	-	-	1
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Other adjustments	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	1	2	-	-	3
Total enhancements (added to the RAB - see statement 2a)	43	86	179	171	479
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	1	2	4	4	11
Adjustment for 25% retention of efficient overspend	-	-	-	2	2
Other Adjustments	3	-	-	-	3
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	58	55	14	19	146
Other adjustments	(1)	-	-	-	(1)
Total actual enhancement expenditure (see statement 3)	104	143	197	196	640

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

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, some of the deferrals from previous years have been caught up. However, in the control period to date there has been a net deferral of activity which, 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 (June 2017), 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 June 2017) 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 with notable contributions from Track and Signalling projects. 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.

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

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure. The reduction reported in the current year reflects decreased planned expenditure in this category across the whole control period compared to planned levels of investment included in Business Plans earlier in the control period.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. The increase reported in the current year reflects the reduced expenditure on such schemes compared to earlier plans as noted above.
- (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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, 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 first year of the control period were reversed in the second year of the control period.
- (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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process.

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

In £m 2017-18 prices unless stated

- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programmes have been re-profiled into CP6 and beyond.
- (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.
- (13) Non-PR13 enhancements – Other adjustments (including discretionary investment) – this relates to various discretionary projects that Wales have undertaken this year. These amounts are not eligible for RAB addition and so are reported as financial underperformance in Statement 5.

Statement 3: Analysis of enhancement capital expenditure, Wales

In £m 2017-18 prices unless stated

	Actual	2017-18 Baseline	Difference	Actual	Cumulative Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	1	2	1	1	5	4
Stations - Access for All (AfA)	-	4	4	8	11	3
Development	-	(1)	(1)	6	3	(3)
Level crossing safety	1	2	1	2	4	2
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	2	4	2	4	6	2
Total funds	4	11	7	21	29	8
Committed projects						
Bridgend to Swansea electrification	6	(13)	(19)	18	13	(5)
GW electrification	184	267	83	449	496	47
IEP Programme	-	-	-	-	-	-
Total committed projects	190	254	64	467	509	42
Third party funded						
Welsh Valley lines electrification	-	-	-	2	3	1
Total Third Party funded	-	-	-	2	3	1
CP4 Project Rollovers						
Barry - Cardiff Queen Street corridor	-	-	-	13	14	1
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	-	-	-
Total CP4 rollovers	-	-	-	13	14	1
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	-	-	-	-	-	-
R&D allowance	-	-	-	1	1	-
Income generating property schemes	-	(1)	(1)	2	-	(2)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	(19)	-	19	(19)	-	19
Total other projects	(19)	(1)	18	(16)	1	17
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	175	264	89	487	556	69
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	-	-	-	2	-	(2)
Total Government sponsored schemes	-	-	-	2	-	(2)
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	2	-	(2)	4	-	(4)
Total non PR13 enhancement expenditure	2	-	(2)	8	-	(8)
Total Network Rail funded enhancements (see Statement 1)	177	264	87	495	556	61
Third Party PAYG	19	-	(19)	147	-	(147)
Total enhancements (see statement 2b)	196	264	68	642	556	(86)

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

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £177 (as shown in Statement 1). This comprises the total enhancement figure in the table above £196m less the PAYGO schemes funded by third parties (£19m).
- (5) Investment expenditure this year was broadly in line with the previous year as delivery of the enhancement portfolio continues to make significant progress.
- (6) 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 review) 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. Overall, expenditure in this category this year was lower than the baseline, which accounts for most of the variance in the control period to date. Noteworthy variances between expenditure in the year and the baseline are set out below:

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

In £m 2017-18 prices unless stated

- a. Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Whilst expenditure is less than the baseline in the current year and the control period to date as fewer appropriate schemes have been identified compared to the original expectation so far in CP5.
 - b. 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. Investment in the current year is lower than planned but closer for the control period to date. As well as the schemes identified through this funding schemes, the Welsh government have also provided direct funding for these type of project this control period through the PAYGO enhancements category.
 - c. Development - This fund includes CP6 Development, Network Rail Discretionary Funding and the Innovation Fund. Expenditure in the control period to date is higher than the baseline although this is expected to be recovered next year.
 - d. 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. Investment is lower than planned in the year and the control period to date. Investment in the year was mainly on work at the Severn Tunnel.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is lower the baseline due to slower progress on electrification programmes. The notable variances between expenditure and the baseline are set out below:
- a. GW electrification - This is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is lower than the baseline this year, which has also caused the majority of the underspend in the control period to date. The savings in the control period to date are largely due to slower progress on the programme. This has been caused by a variety of factors, including workings around endangered species and listed buildings, delivery of more electricity masts than planned, rising subcontractor costs necessitating re-designing works to something more cost-effective and difficulty acquiring long enough possession windows to deliver the scope. These delays have led to updates to the agreed dates of milestone delivery.
 - b. Bridgend to Swansea electrification (sometimes referred to as South Wales Main Line Electrification) - this project facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes. Investment for the control period to date is consistent with the baseline.
- (8) 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, Wales – continued

In £m 2017-18 prices unless stated

- (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. There is only one project in this category: Barry – Cardiff Queen Street - the output of this project is to deliver an increase in south Wales valley line services from 12 trains per hour to 16 trains per hour by January 2017. As the project is substantially complete there is minimal expenditure this year. Costs for the control period are in line with the Hendy baseline.
- (10) Other projects – this heading captures various sundry enhancement projects but is dominated by Adjustment for DfT funding category – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme in England & Wales, an element of which is attributed to each of the operational routes. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB (refer to Statement 2a).
- (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 2a) or recognised as financial performance (refer to Statement 5c) 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. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.
 - b. Discretionary investment – expenditure this year mainly relates to investment in various projects for which there was no funding, either in the Hendy baseline or from third parties which the route have decided to implement to generate benefits for the network in Wales as a whole. As these projects have no funding baseline, they have resulted in financial underperformance being recognised this year (refer to Statement 5c).
 - c. PAYGO – as noted above, DfT made a cash contribution to the enhancement portfolio in England & Wales this year, an element of which was allocated to each operational route. This reduces the amount that is added to the RAB in the above categories and increases expenditure in this area.

Statement 4: Net debt and financial ratios, Wales

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	2,226	2,301	75	1,774	1,731	(43)
Income						
Grant income	(290)	(293)	(3)	(1,097)	(1,092)	5
Fixed charges	(24)	(25)	(1)	(85)	(86)	(1)
Variable charges	(23)	(23)	-	(109)	(106)	3
Other single till income	(22)	(28)	(6)	(78)	(87)	(9)
Total income	(359)	(369)	(10)	(1,369)	(1,371)	(2)
Expenditure						
Network operations	35	25	(10)	126	105	(21)
Support costs	18	19	1	76	83	7
Traction electricity, industry costs and rates	17	12	(5)	53	43	(10)
Network maintenance	69	64	(5)	276	254	(22)
Schedule 4	7	11	4	29	60	31
Schedule 8	3	-	(3)	1	-	(1)
Renewals	186	120	(66)	693	601	(92)
PR13 enhancement	175	210	35	474	572	98
Non-PR13 enhancement	2	-	(2)	7	-	(7)
Total expenditure	512	461	(51)	1,735	1,718	(17)
Financing						
Interest expenditure on nominal debt - FIM covered	18	41	23	81	133	52
Interest expenditure on index linked debt - FIM covered	12	16	4	49	58	9
Expenditure on the FIM	14	26	12	64	91	27
Interest expenditure on government borrowing	40	-	(40)	79	-	(79)
Interest on cash balances held by Network Rail	-	(2)	(2)	(1)	(5)	(4)
Total interest costs	84	81	(3)	272	277	5
Accretion on index linked debt - FIM covered	34	38	4	80	126	46
Total financing costs	118	119	1	352	403	51
Corporation tax	-	-	-	-	-	-
Other	73	-	(73)	78	31	(47)
Movement in net debt	344	211	(133)	796	781	(15)
Closing net debt	2,570	2,512	(58)	2,570	2,512	(58)

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	1.24	1.07	0.95	0.73	1.12
FFO/interest	2.95	2.94	2.65	2.49	2.95
Net debt/RAB (gearing)	67.3%	68.1%	70.7%	74.2%	72.1%
FFO/debt	11.0%	9.7%	8.9%	8.1%	9.5%
RCF/debt	7.6%	6.7%	6.0%	4.9%	6.3%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	n/a

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

In £m nominal unless otherwise stated

Note:

- (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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Wales as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to Wales has increased by £0.35bn 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) Net debt attributable to Wales at 31 March 2018 is £0.05bn 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 extra investment undertaken towards the end of CP4. Since then, the total movement in net debt has largely tracked the regulator's expectation.
- (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 other 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 as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(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 made 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 in line with the regulatory assumption. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are marginally higher than the previous year which, ceteris paribus, is expected as the interest expense on index-linked debt in the previous year is added to the principle for future years and there are no scheduled repayments of this type of debt in the current control period. Additionally, RPI this year has been higher than the previous year, thus increasing the interest expense recognised in 2017/18.
- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year.

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

In £m nominal unless otherwise stated

- 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are slightly lower than with those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) which more than offsets higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of funding made available during the course of construction on enhancement projects.

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

In £m nominal unless otherwise stated

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

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail to be able to cover its interest costs through its trading profits (including an assumption for steady state renewals). The variance to the regulator's determination is mainly due to Network operations and Maintenance costs and lower turnover. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accreting debt instruments placed in capital markets.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

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

In £m nominal unless otherwise stated

- (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 2017/18 is higher than the regulatory comparative which is mainly due to efficient capital overspend and higher net operational costs partly offset by interest savings. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected.
- (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 adverse variance to the regulator’s assumption is due to higher operating costs than planned, notably Maintenance and Network operations costs, as well as lower other single till income. Network Rail also has higher debt the regulator assumed which is partly due to working capital movements but also due to higher net operational costs throughout the control period to date. The decline in the ratio this 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 other single till income, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Wales

In £m 2017-18 prices unless stated

2017-18								
	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 $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	290	293	(3)	(3)	-	-	-	-
Fixed Income	24	25	(1)	(1)	-	-	-	-
Variable Income	22	22	-	-	-	-	-	-
Other Single Till Income	22	28	(6)	(8)	-	-	2	2
Opex memorandum account	(2)	-	(2)	2	-	-	(4)	(4)
Total Income	356	368	(12)	(10)	-	-	(2)	(2)
Expenditure								
Network operations	35	25	(10)	-	-	-	(10)	(10)
Support costs	18	19	1	-	-	-	1	1
Industry costs and rates	16	11	(5)	(2)	-	-	(3)	(3)
Traction electricity	-	-	-	-	-	-	-	-
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	69	64	(5)	-	2	-	(7)	(7)
Schedule 4 costs	7	11	4	-	1	-	3	3
Schedule 8 costs	3	-	(3)	-	-	-	(3)	(3)
Renewals	186	120	(66)	-	11	-	(77)	(20)
PR13 Enhancements	175	264	89	-	89	-	-	-
Non PR13 Enhancements	2	-	(2)	-	-	-	(2)	(2)
Financing Costs	118	119	1	1	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	629	633	4	(1)	103	-	(98)	(41)
Total:			(8)	(11)	103	-	(100)	(43)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(43)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(3)
Under-delivery of train performance requirements (CaSL)								(1)
Missed milestones for asset management - data quality								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(4)
Total financial out / (under) performance to be recognised								(47)

Statement 5a: Total financial performance, Wales - continued

In £m 2017-18 prices unless stated

	Cumulative							
	Actual	Adjusted PR13	Variance to adjusted PR13	Due total financial to: performance	Variances in volume of work	Other adjustments to PR13	Financial out / (under) performance	Final Variance $G = C - D - E - F = G \times 25\%$
	A	B	C Favourable / (Adverse)	D	E	F		
Income								
Grant Income	1,143	1,139	4	4	-	-	-	-
Fixed Income	90	90	-	-	-	-	-	-
Variable Income	112	109	3	-	-	-	3	3
Other Single Till Income	81	90	(9)	(13)	-	-	4	4
Opex memorandum account	(4)	-	(4)	3	-	-	(7)	(7)
Total Income	1,422	1,428	(6)	(6)	-	-	-	-
Expenditure								
Network operations	129	108	(21)	-	-	-	(21)	(21)
Support costs	79	89	10	2	-	-	8	8
Industry costs and rates	55	41	(14)	(4)	-	-	(10)	(10)
Traction electricity	-	-	-	-	-	-	-	-
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	287	265	(22)	-	(7)	-	(15)	(15)
Schedule 4 costs	30	63	33	-	14	-	19	19
Schedule 8 costs	2	1	(1)	-	-	-	(1)	(1)
Renewals	721	627	(94)	-	226	-	(320)	(80)
PR13 Enhancements	487	556	69	-	69	-	-	-
Non PR13 Enhancements	8	-	(8)	-	(6)	-	(2)	(2)
Financing Costs	361	403	42	42	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	2,159	2,154	(5)	40	297	-	(342)	(102)
Total:			(11)	34	297	-	(342)	(102)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(102)
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 milestones for asset management - data quality								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								(2)
Missed Enhancement milestones								(1)
Total adjustment for under-delivery outputs								(13)
Total financial out / (under) performance to be recognised								(115)

	2017-18			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 - OSTI:						
Adjustment for Welsh Valleys finance charge	-	8	(8)	-	13	(13)
Total variance not included in total	-	8	(8)	-	13	(13)
Breakdown of variance not included in total financial performance - Support costs:						
Spend to save adjustment	-	-	-	1	-	1
Release of CP4 long distance financial penalty provision	-	-	-	1	-	1
Total variance not included in total	-	-	-	2	-	2

Statement 5a: Total financial performance, Wales – continued

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 in the year 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.
- (3) Variable income – across the control period to date, Network Rail has achieved marginal outperformance mostly as a result of increased capacity charges. In the current year, financial underperformance is neutral. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Wales – continued

In £m 2017-18 prices unless stated

- (4) Other single till income – this year, financial outperformance has been reported mainly due to additional property sales made. Extra property sales and additional amounts earned through property rental have driven the outperformance in the control period to date. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. The PR13 assumed that Network Rail would receive income for 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 this programme. However, this assumption did not fully materialise and the project did not progress. 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. Other single till income is set out in more detail in Statement 6a.
- (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 and in the control period to date. Slow freight growth owing structural changes in the industry and lower than expected passenger numbers have resulted in financial underperformance being recognised this year. This has augmented variance in earlier years of the control period to date which have been caused by the same factors. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations costs in in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

Statement 5a: Total financial performance, Wales – continued

In £m 2017-18 prices unless stated

- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business, continuing the trend of earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D.
- (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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (9) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the control period to date, 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.

Statement 5a: Total financial performance, Wales – continued

In £m 2017-18 prices unless stated

- (10) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (11) Schedule 4 costs – costs are lower than the determination assumed which is mainly due to achieving outperformance. This was achieved through tight management of possession schedules to reduce the impact of late (and so more costly) changes to the timetable. This continues the trend of outperformance generated in the control period to date. Variances to the determination caused by reductions in volumes are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E).
- (12) Schedule 8 costs – costs are higher than the determination due to train performance falling short of the regulators targets for 2017/18 which has negated the outperformance in earlier years of the control period. The current year suffered from the impact of the snow brought by storm Emma in February, as well as a possession overrun following works at the Severn Tunnel and the collapse of a building adjacent to the Cardiff-Newport main line.
- (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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b.

Statement 5a: Total financial performance, Wales – continued

In £m 2017-18 prices unless stated

- (14) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme. Financial performance has been neutral for both the current year and the control period to date.
- (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. The financial underperformance recognised this year is due to a number of small discretionary projects which aim to improve the network in Wales but for which no funding was provided through the Hendy review or subsequent change control.
- (16) Financing costs – financing costs are in line with the regulatory expectation this year. This is set out in more detail in Statement 4. Variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.

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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.
- (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 2017/18, continuing the trend of the earlier years 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.
- (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 Wales were missed in 2017/18, continuing the trend of earlier years 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 5a: Total financial performance, Wales – continued

In £m 2017-18 prices unless stated

- (4) Missed enhancement milestones – in line with the regulator's rules 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 there have been no missed outputs since which have impacted customer outputs.
- (5) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.

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

In £m 2017-18 prices unless stated

2017-18								
	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	(42)	(10)	(32)	(8)		(8)	-	-
Signalling	(42)	(10)	(32)	(8)		(8)	-	-
Civils	(1)	11	(12)	(3)		(2)	(1)	-
Buildings	5	5	-	-		-	-	-
Electrical power and fixed plant	2	2	-	-		-	-	-
Telecoms	-	-	-	-		-	-	-
Wheeled plant and machinery	1	1	-	-		-	-	-
IT	-	-	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	11	12	(1)	(1)		(1)	-	-
Total	(66)	11	(77)	(20)		(19)	(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	(64)	72	(136)	(34)		(33)	(1)	-
Signalling	(49)	83	(132)	(33)		(32)	(1)	-
Civils	2	54	(52)	(13)		(8)	(5)	-
Buildings	14	10	4	1		1	-	-
Electrical power and fixed plant	12	12	-	-		-	-	-
Telecoms	(1)	(1)	-	-		-	-	-
Wheeled plant and machinery	12	12	-	-		-	-	-
IT	(6)	(6)	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	(14)	(10)	(4)	(1)		-	(1)	-
Total	(94)	226	(320)	(80)		(72)	(8)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

Comments:

- (1) Negative financial performance has been recognised in the current year across Track, Signalling and Civils asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets, continuing the trend from the previous years on the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track and Civils) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

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

In £m 2017-18 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Approximately one-quarter of this was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets, continuing the trend of the control period to date. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5 (such as Cardiff area re-signalling, which accounts for a large element of signalling investment in Wales this control period), providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. The largest single contributor to signalling financial performance this control period has been Cardiff area resignalling. Delays in the commissioning of the project have increased costs. The lack of available access meant that the project has been delayed by more than two years with the prolongation resulting in extra costs.

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

In £m 2017-18 prices unless stated

- (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. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network.
- (5) Other – this is made up of a number of different categories including the following:
- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
 - b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.
 - c. CP4 rollover: 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. The underperformance recognised in the control period to date includes notable contributions from FTN.

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

In £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Other Enhancements	87	89	-	(2)	(2)
Total	87	89	-	(2)	(2)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Other Enhancements	61	63	-	(2)	(2)
Total	61	63	-	(2)	(2)

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

In £m 2017-18 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 and so 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 their 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 incoming 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). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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) 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. In addition, minor financial performance variances are captured through this heading. The main areas of expenditure relate to discretionary investment undertaken in the route to improve the railway network in this region. As there was no funding available for these projects in the Hendy baseline, or subsequent change control, 100 per cent of the variance is classified as financial underperformance.

Statement 5d: Total financial performance - REBS performance, Wales

In £m 2017-18 prices unless stated

	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Cumulative to 2017-18 Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	35	36	(1)	-	-	-	(1)
Capacity charge	38	35	3	-	-	-	3
Electricity asset utilisation charge	-	-	-	-	-	-	-
Property income	8	4	4	-	-	-	4
Expenditure							
Network operations	129	103	(26)	-	-	-	(26)
Support costs	79	93	14	-	1	-	13
RSSB and BT Police	18	8	(10)	-	-	-	(10)
Network maintenance	287	259	(28)	(16)	-	-	(12)
Schedule 4 costs	30	58	28	9	-	-	19
Schedule 8 costs	2	-	(2)	-	-	-	(2)
Renewals	721	622	(99)	221	-	(240)	(80)
Total REBS performance			(117)	214	1	(240)	(92)
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 milestones for asset management - data quality							-
Missed ORBIS milestones							(2)
Total adjustment for under delivery of outputs and reduced sustainability							(12)
Cumulative performance to end of 2017-18							(104)
Less cumulative outperformance recognised up to the end of 2016-17							(62)
Net REBS performance for 2017-18							(42)

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 2017-18 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	290	293	(3)	1,143	1,139	4	289
Franchised track access income							
Fixed charges	24	25	(1)	90	90	-	21
Variable charges							
Variable usage charge	5	5	-	21	21	-	6
Traction electricity charges	1	1	-	1	1	-	-
Electrification asset usage charge	-	-	-	-	-	-	-
Capacity charge	9	9	-	37	34	3	9
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	8	8	-	54	54	-	17
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	23	23	-	113	110	3	32
Total franchised track access income	47	48	(1)	203	200	3	53
Total franchised track access and grant income	337	341	(4)	1,346	1,339	7	342
Other single till income							
Property income	5	-	5	10	1	9	2
Freight income	4	5	(1)	17	18	(1)	3
Open access income	-	-	-	-	-	-	-
Stations income	10	11	(1)	42	43	(1)	10
Facility and financing charges	-	9	(9)	1	17	(16)	-
Depots Income	3	3	-	11	10	1	3
Other income	-	-	-	-	1	(1)	-
Total other single till income	22	28	(6)	81	90	(9)	18
Total income	359	369	(10)	1,427	1,429	(2)	360

Statement 6a: Analysis of income, Wales – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of how certain enhancements would be funded and the income that Wales would receive from Welsh Valley financing arrangements (offset by interest cost savings made by Network Rail). Income is in line with the previous year.
- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only 10.96 per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table.

Statement 6a: Analysis of income, Wales – continued

In £m 2017-18 prices unless stated

- (4) Fixed charges – fixed charge income was slightly lower than the determination this year. This is attributable 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 on Grant income. 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 for the control period to date are in step with the regulatory expectation. Increases in Fixed charges compared to the previous year are in line with the regulatory expectation.
- (5) Capacity charge – costs in the year are in line with the regulatory expectation but are favourable in the control period to date. This is due to extra services provided to train operators.
- (6) Schedule 4 net income – income is determined through track access contracts. The noticeable reduction compared to the previous year is a function of the regulator's assumption for CP5, which assumed reductions in Network Rail's schedule 4 costs (which this income is designed to cover) over the control period due to year-on-year reductions in renewals investment and possession planning efficiencies.
- (7) Property income – this is higher than the determination target this year and in the control period to date. The determination assumed that minimal property income would be earned in Wales this control period but opportunities have been identified. The current year benefit has mostly arisen from additional property sales this year.
- (8) Facility and financing charges – income in this category is lower than the regulator assumed in its' determination. At the time of the determination 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 meaning no income has been generated in the current year or the control period to date. 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 2017-18 prices unless stated

	2017-18			Cumulative			2016-17
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Property Income							
Property rental	2	1	1	7	5	2	2
Property sales	3	-	3	3	1	2	-
Adjustment for commercial opex	-	(1)	1	-	(5)	5	-
Total property income	5	-	5	10	1	9	2
Freight income							
Freight variable usage charge	4	4	-	14	16	(2)	3
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	-	-	-	2	-	2	-
Freight coal spillage charge	-	1	(1)	-	1	(1)	-
Total freight income	4	5	(1)	17	18	(1)	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	-	-	-	-	-	-	-
Qualifying expenditure	-	-	-	-	-	-	-
Total managed stations income	-	-	-	-	-	-	-
Franchised stations income							
Long term charge	9	10	(1)	37	38	(1)	9
Stations lease income	1	1	-	5	5	-	1
Total franchised stations income	10	11	(1)	42	43	(1)	10
Total stations income	10	11	(1)	42	43	(1)	10
Facility and financing charges							
Facility charges	-	1	(1)	1	4	(3)	-
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	8	(8)	-	13	(13)	-
Total facility and financing charges	-	9	(9)	1	17	(16)	-
Depots income	3	3	-	11	10	1	3
Other	-	-	-	-	1	(1)	-
Total other single till income	22	28	(6)	81	90	(9)	18

Statement 6b: Analysis of other single till income (unaudited), Wales – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	2017-18			Cumulative			2016-17
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	19	12	(7)	76	56	(20)	20
Signalling shift managers	1	1	-	3	4	1	1
Local operations managers	1	1	-	4	4	-	1
Controllers	3	2	(1)	10	8	(2)	2
Electrical control room operators	-	1	1	-	3	3	-
Total signaller expenditure	24	17	(7)	93	75	(18)	24
Non-signaller expenditure							
Mobile operations managers	2	2	-	6	8	2	2
Managed stations	-	2	2	-	9	9	-
Performance	-	1	1	-	4	4	-
Customer relationship executives	-	-	-	1	2	1	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	2	1	(1)	6	5	(1)	2
Other	1	1	-	1	3	2	-
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	1	-	(1)	4	-	(4)	1
HQ - Performance and planning	-	-	-	1	-	(1)	-
HQ - Stations and customer services	1	-	(1)	1	-	(1)	-
HQ - Other	6	2	(4)	22	7	(15)	6
Other operating income	(2)	(1)	1	(6)	(5)	1	(2)
Total non-signaller expenditure	11	8	(3)	36	33	(3)	10
Total network operations expenditure	35	25	(10)	129	108	(21)	34
Support costs							
Core support costs							
Human resources	1	3	2	6	14	8	1
Information management	4	4	-	14	14	-	3
Government and corporate affairs	1	1	-	3	4	1	1
Group strategy	1	1	-	3	5	2	-
Finance	1	1	-	5	6	1	1
Business services	1	1	-	5	4	(1)	1
Accommodation	4	-	(4)	9	1	(8)	3
Utilities	-	1	1	10	3	(7)	4
Insurance	1	1	-	1	4	3	-
Legal and inquiry	-	-	-	-	1	1	1
Safety and sustainable development	1	1	-	4	2	(2)	1
Strategic sourcing	-	-	-	-	2	2	-
Business change	-	-	-	-	1	1	-
Other corporate functions	2	-	(2)	14	1	(13)	5
Core support costs	17	14	(3)	74	62	(12)	21
Other support costs							
Asset management services	1	4	3	8	19	11	2
Network Rail telecoms	2	2	-	8	8	-	1
National delivery service	-	(1)	(1)	-	1	1	-
Infrastructure Projects	(1)	-	1	(4)	-	4	(2)
Commercial property	-	-	-	-	-	-	(1)
Group costs	(1)	-	1	(7)	(1)	6	-
Total other support costs	1	5	4	5	27	22	-
Total support costs	18	19	1	79	89	10	21
Traction electricity, industry costs and rates							
Traction electricity	1	1	-	1	1	-	-
Business rates	9	8	(1)	30	29	(1)	6
British transport police costs	4	1	(3)	15	6	(9)	2
RSSB costs	1	1	-	3	2	(1)	1
ORR licence fee and railway safety levy	2	1	(1)	6	4	(2)	1
Reporters fees	-	-	-	-	1	1	-
Other industry costs	-	-	-	1	-	(1)	-
Total traction electricity, industry costs and rates	17	12	(5)	56	43	(13)	10
Total network operations expenditure, support costs, traction electricity, industry costs and rates	70	56	(14)	264	240	(24)	65

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumed this year. This is mainly due to higher signaller costs as savings assumed in the PR13 have not been realised, partly offset by lower costs in central functions.
- (3) 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.
- (4) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are in line with the previous year.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business.

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

In £m 2017-18 prices unless stated

- (6) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (7) Accommodation – property expenses were higher than the determination, continuing the trend of the control period to date. The determination expected that these costs would be negligible this control period but this has not proven to be the case.
- (8) Utilities – the costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. Costs for the control period to date owing to higher than expected charges.
- (9) Insurance - costs are favourable to the determination in the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (10) Safety and sustainable development - costs are much higher than the determination in the control period to date due to enhanced focus on safety. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.
- (11) Other corporate functions – costs are higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

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

In £m 2017-18 prices unless stated

- (12) Asset Management Services – costs are lower than the determination in the control period to date 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).
- (13) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (14) 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 mainly due to lower performance related payments to staff and lower re-organisation costs in the current year than the regulator expected. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure) and lower re-organisation costs. Greater detail of these items is included in Statement 7b.
- (15) 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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is higher than the regulator's assumption in the current year and control period to date mainly due to extra British Transport Police costs. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media.
- (16) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest valuations (and so costs) provided by the Valuation Office Agency. Costs this year and in the control period to date have been broadly in line with the regulator's expectation. Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency.

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

In £m 2017-18 prices unless stated

- (17) British Transport Police costs - expenses in the year are higher than the determination assumed. 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. This year's costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs elsewhere on the network (including Manchester Victoria and London Bridge). In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience.

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

In £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	14	19	19	21	19
MOMS	1	1	1	2	2
Control	3	2	2	3	3
Planning & Performance Staff Costs	2	-	2	1	3
Managed Stations Staff Costs	1	-	-	3	-
Operations Management Staff Costs	1	1	2	-	1
Other	8	6	5	4	7
Total operations & customer services costs	30	29	31	34	35
Total Network Operations	30	29	31	34	35
Support					
Human resources					
Functional support	1	1	1	1	1
Training (inc Westwood)	1	1	-	-	-
Graduates	1	-	-	-	-
Apprenticeships	-	-	-	-	-
Other	-	-	1	-	-
Total human resources	3	2	2	1	1
Information management					
Support	-	1	-	-	-
Projects	-	-	-	-	1
Licences	-	-	-	-	-
Business operations	3	3	3	3	3
Other	-	-	-	-	-
Total information management	3	4	3	3	4
Finance	1	1	2	1	1
Business Change	-	-	-	-	-
Contracts & Procurement	-	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	-	-	-	-
Planning & development	3	1	1	-	1
Safety & compliance	1	-	-	-	-
Other corporate services	3	1	1	3	1
Commercial property	6	2	1	2	4
Infrastructure Projects	(3)	(1)	(1)	(2)	(1)
Route Services	1	1	1	1	1
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	6	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	4	3	4	-
Network Rail Telecoms	-	2	2	1	2
Digital Railway	-	1	1	1	-
Safety Technical & Engineering	-	2	2	2	2
Government & Corporate Affairs	-	1	1	1	1
Business Services	-	1	1	1	1
Route Asset Management	-	2	1	1	-
Legal and inquiry	-	-	-	1	-
Group/central					
Pensions	-	-	-	-	-
Insurance	2	1	-	-	1
Redundancy/reorganisation costs	5	1	1	-	1
Staff incentives/Bonus Reduction	-	(1)	-	-	(1)
Accommodation & Support Recharges	-	(2)	(2)	(1)	(2)
Commercial claims settlements	-	-	-	-	-
ORR financial penalty	4	(1)	-	-	-
Other	1	-	(1)	1	1
Total group/central costs	12	(2)	(2)	-	-
Total support	36	22	19	21	18
Total network operations and support costs	66	51	50	55	53

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Wales – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	29	23	(6)	123	96	(27)	30
Signalling	13	9	(4)	47	39	(8)	11
Civils	8	11	3	47	46	(1)	9
Buildings	3	4	1	18	15	(3)	5
Electrical power and fixed plant	7	8	1	19	29	10	7
Telecoms	2	1	(1)	6	5	(1)	2
Other network operations	8	5	(3)	26	20	(6)	5
Asset management services	1	2	1	6	8	2	2
National Delivery Service	-	2	2	-	10	10	-
Property	-	-	-	-	1	1	-
Group	(2)	(1)	1	(5)	(4)	1	(1)
Total maintenance expenditure	69	64	(5)	287	265	(22)	70

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

In £m 2017-18 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 of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by higher asset inspection costs. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling affecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but 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 base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17.

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

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting legal changes to overtime.
- (4) Civils – costs were lower than the determination mainly as a result of less reactive maintenance required partly offset by additional inspections costs. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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. Asset inspection costs continue to be higher than the determination. Costs are also lower than expected due to a transfer of responsibilities to the Asset management services heading which helps explain the increase in that category. Costs are broadly in line with the regulatory assumption in the control period to date due to lower levels of reactive maintenance work required offset by higher inspections costs. The reductions in costs compared to the previous year are also due to a combination of reduced reactive maintenance and inspection costs.
- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the control period to date is higher than the regulatory expectation. Variances in this category 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 performance guidelines which have been agreed with ORR.

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

In £m 2017-18 prices unless stated

- (6) Electrical power and fixed plant – although costs for the current year are in line with the regulatory assumption, they are lower in the control period to date. As parts of the network in Wales are electrified it requires additional resource to ensure that the assets continue to work optimally. Delays in introducing some of the electrification programme (most notably the change control scope decisions made around the main line electrification have reduced the need for the same level of resource, thus saving maintenance costs in this category.
- (7) Other network operations – costs for the current year and control period to date are higher than the regulator's expectation. For the control period to date, the higher costs compared to the PR13 prediction includes extra safety and performance improvement costs. 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 re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are higher than the previous year as a result and the transfer of activity from this category to other headings within this statement (notably Asset management services) as part of the move towards a devolved railway with greater accountability given to local management teams who are closer to the passenger.
- (8) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.
- (9) 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).

Statement 9a: Summary analysis of renewals expenditure, Wales

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	63	21	(42)	229	165	(64)	73
Signalling	66	24	(42)	234	185	(49)	61
Civils	35	34	(1)	153	155	2	51
Buildings	7	12	5	26	40	14	8
Electrical power and fixed plant	2	4	2	6	18	12	1
Telecoms	2	2	-	11	10	(1)	3
Wheeled plant and machinery	4	5	1	16	28	12	3
Information Technology	5	5	-	25	19	(6)	4
Property	-	-	-	-	-	-	-
Other renewals	2	13	11	21	7	(14)	4
Total renewals expenditure	186	120	(66)	721	627	(94)	208

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

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is higher than the determination expected which is a combination of net deferrals of activity partially than offset by higher underlying costs (notably in Track and Signalling). Consequently, financial underperformance has been recognised in the current year (as reported in Statement 5). Expenditure in the control period to date is higher than the determination mainly due to higher track and signalling costs, including the impact of delivering the Cardiff area re-signalling project. Investment is lower than the previous year with decreases most evident in Civils and Track.
- (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 opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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. Investment in the control period to date is significantly higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. This is most evident in the reduction in activity planned for S&C refurbishment units across CP5 which have fallen by about half. The extra costs are also partly caused by increased delivery of Plain Line Conventional at the expense of refurbishment works which have a higher unit rate associated with them. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered, most notably S&C renewals which reduced by nearly two-thirds this year.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was higher than the determination expected, continuing the trend of earlier years of the control period. The higher costs were due to underlying costs being more expensive than the regulator assumed partly alleviated by deferral of programmes. 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 and consequently, activity in this. In addition, the determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of Cardiff area resignalling which has encountered a number of difficulties (including delays in commissioning dates which, due to limited access availability, caused the project commissioning date to be postponed as well as contractor claims), but has now been successfully commissioned.. Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 slightly higher than the previous year although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. As an example, this year the phasing of activity on North Wales Coast and Port Talbot schemes made up for the reductions from the Cardiff re-signalling project this scheme is now substantially complete.
- (4) Civils – expenditure in the year and the control period to date is in line with regulatory expectation. However, this is due to higher underlying costs being mitigated by deferral of activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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). The higher expenditure includes the impact of emergency repair works required in the wake of extreme weather damaging the network (including landslips). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period.
- (5) Buildings – expenditure in the year was lower than the regulator expected, continuing the pattern from earlier in the control period which is mainly due to deferral of activity. The most noticeable category of underspend was in Franchised stations as work has been pushed back into future control periods, although some of the underspend is expected to be caught up in the final year of CP5. Spend is broadly in line with the previous year.

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

In £m 2017-18 prices unless stated

- (6) Electrical power and fixed plant – costs are lower than the regulator's assumption both this year and in the control period to date as work has been deferred into future control periods. Delays and changes to the scope of electrification enhancement has contributed to the reduction in investment. There are limited electrified assets in Wales that require replacing.
- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is broadly in line with the previous year.
- (8) Information technology – investment in the control period to date is higher than the determination assumed. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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.

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

In £m 2017-18 prices unless stated

(9) Other renewals includes the following notable items:

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. Expenditure was lower than the previous year as programme milestones are delivered. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. Expenditure has been lower in the control period to date as no programmes with sufficiently robust business cases have been identified in Wales so far this 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 with variances in the control period to date being reversed in the final year of the control period. 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 the previous control period (CP4), 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. There is no expenditure in the current year as the applicable schemes are now substantially complete.

Statement 9b: Detailed analysis of renewals expenditure, Wales

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	25	1	(24)	73	25	(48)
High output renewal	12	-	(12)	41	21	(20)
Plain line refurbishment	5	7	2	26	23	(3)
S&C renewal	4	4	-	43	58	15
S&C refurbishment	4	4	-	8	18	10
Track non-volume	4	3	(1)	15	11	(4)
Off track	9	2	(7)	23	9	(14)
Total track	63	21	(42)	229	165	(64)
Signalling						
Full conventional resignalling	29	8	(21)	163	56	(107)
Modular resignalling	19	1	(18)	33	61	28
ERTMS resignalling	-	-	-	-	1	1
Partial conventional resignalling	-	4	4	-	5	5
Targeted component renewal	-	-	-	-	-	-
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	4	2	(2)	9	10	1
Level crossings	9	3	(6)	14	27	13
Minor works	4	5	1	11	22	11
Centrally managed costs	1	1	-	4	3	(1)
Other	-	-	-	-	-	-
Total signalling	66	24	(42)	234	185	(49)
Civils						
Underbridges	13	13	-	67	56	(11)
Overbridges	1	2	1	13	10	(3)
Bridgeguard 3	-	-	-	1	-	(1)
Major structures	-	1	1	-	4	4
Tunnels	1	3	2	3	13	10
Other assets	9	5	(4)	27	22	(5)
Structures other	2	4	2	4	22	18
Earthworks	9	6	(3)	38	28	(10)
Other	-	-	-	-	-	-
Total civils	35	34	(1)	153	155	2
Buildings						
Managed stations	-	-	-	-	-	-
Franchised stations	4	10	6	18	30	12
Light maint depots	-	1	1	1	4	3
Depot plant	-	1	1	1	4	3
Lineside buildings	-	-	-	1	1	-
MDU buildings	3	-	(3)	5	1	(4)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	7	12	5	26	40	14

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

In £m 2017-18 prices unless stated

	Actual	2017-18 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	2	2	-	6	13	7
Total electrical power and plant	2	4	2	6	18	12
Telecoms						
Operational communications	-	-	-	-	-	-
Network	-	1	1	2	4	2
SISS	-	-	-	-	-	-
Projects and other	1	-	(1)	2	2	-
Non-route capital expenditure	1	1	-	7	4	(3)
Total telecoms	2	2	-	11	10	(1)
Wheeled plant and machinery						
High output	1	1	-	4	7	3
Incident response	-	-	-	-	-	-
Infrastructure monitoring	-	-	-	-	1	1
Intervention	2	1	(1)	4	7	3
Materials delivery	-	-	-	4	1	(3)
On track plant	1	1	-	3	4	1
Seasonal	-	-	-	1	2	1
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	1	1
Road vehicles	-	2	2	-	5	5
S&C delivery	-	-	-	-	-	-
Total wheeled plant and machinery	4	5	1	16	28	12
Information Technology						
IM delivered renewals	4	4	-	23	17	(6)
Traffic management	1	1	-	2	2	-
Total information technology	5	5	-	25	19	(6)
Property						
MDUs/offices	-	-	-	-	-	-
Commercial estate	-	-	-	-	-	-
Corporate services	-	-	-	-	-	-
Total property	-	-	-	-	-	-
Other renewals						
Asset information strategy	1	2	1	10	10	-
Intelligent infrastructure	1	1	-	3	4	1
Faster isolations	-	2	2	-	8	8
LOWS	-	-	-	1	-	(1)
Small plant	-	-	-	-	2	2
Research and development	-	-	-	-	-	-
Phasing overlay	-	8	8	-	(17)	(17)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	7	-	(7)
Other	-	-	-	-	-	-
West Coast	-	-	-	-	-	-
Total other renewals	2	13	11	21	7	(14)
Total renewals	186	120	(66)	721	627	(94)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Wales – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 10: Other information, Wales

In £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	7	11	4	30	63	33	10
Access charge supplement Income	(8)	(8)	-	(54)	(54)	-	(17)
Net (income)/cost	(1)	3	4	(24)	9	33	(7)

Schedule 8

Performance element income	-	-	-	(7)	-	7	(1)
Performance element costs	3	-	(3)	9	1	(8)	2
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	3	-	(3)	2	1	(1)	1

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	(4)	(7)	(2)
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	-	(1)	-
Other industry costs	-	1	-
Difference in CP4 opex memo	-	-	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(2)	(4)	(1)

Statement 10: Other information, Wales – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are lower than the determination assumed which is mainly due to achieving outperformance (refer to Statement 5a). This was achieved through tight management of possession schedules to reduce the impact of late (and so more costly) changes to the timetable. This continues the trend of outperformance generated in the control period to date. Costs are lower than the previous year largely due to fewer renewals requiring possessions. Activity in 2016/17 included Cardiff resignalling commissioning which required disruptive possessions whilst S&C delivery has also been lower in the current year.
- (2) Schedule 8 costs are higher than the determination due to train performance falling short of the regulators targets for 2017/18 which has negated the outperformance in earlier years of the control period. The current year suffered from the impact of the snow brought by storm Emma in February, as well as a possession overrun following works at the Severn Tunnel and the collapse of a building adjacent to the Cardiff-Newport main line. These one-off events also drove the increase in costs compared to the previous year, as did the ever tightening performance targets, meaning that Network Rail has to continuously improve just to stand still.
- (3) The opex memorandum currently shows a net outflow for this year which is primarily due to losses made under the Volume Incentive mechanism (refer to Statement 12). The losses in the control period to date are also mostly due to the Volume Incentive mechanism.

Statement 11:

There is no Statement 11 required for Wales

Statement 12: Volume incentives, Wales

In £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(11)	(2)	15	16	0.6%	1.56	pence per passenger train mile
Passenger farebox (millions)	(1)	0	241	243	3.5%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(3)	(1)	1	1	1.6%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	(4)	(1)	1,222	1,461	1.7%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	(19)	(4)					

The cumulative volume incentive is determined by the following calculation: $[A_t - \langle B_{t-1} \times (1 + C_t) \rangle] \times D \times 5$

Where:
A_t = Actual in year quantity
B = 2017-18 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Wales – continued

In £m 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result, compounding the losses made in earlier in the control period. The losses relate to both passenger and freight metrics. For passenger train miles where the growth was not as swift as the regulatory baseline. As the prior year's Regulatory financial statements noted there was an expectation that enhancements at the end start of CP5 would lead to large increases in passenger demands. However postponement of some of these planned works means that Wales did not achieve the growth targets this year and will struggle to achieve the growth the regulator expects for future years of the control period. Freight growth has not achieved the regulator's targets which is largely the result of the continued structural decline in the freight market. Following legislative changes, coal transportation has dramatically declined over CP5.

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC £m	Total AFV unit	Unit Cost £k/unit	unit	£m	Total AFC £m	Total AFV unit	Unit Cost £k/unit
Track	Conventional plain line Renewal	km	38	23	44	75	587	34	20	49	69	710
	High Output Renewal	km	20	13	20	29	690	22	14	14	22	636
	Plain line Refurbishment	km	46	5	12	126	95	49	6	10	73	137
	S&C Renewal/Refurbishment	point ends	59	8	55	254	217	101	16	56	237	236
	Track Drainage	lm	8,232	4	10	28,537	0	10,171	3	5	28,390	0
	Fencing	km	54	4	8	145	55	102	5	13	244	53
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	7	2	4	11	364	19	2	2	40	50
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	59	153	-	-	-	66	149	-	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-	264	35	235	612	384
	Modular Resignalling	SEU	95	19	33	95	347	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Train Fitment	-	-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	1	1	1	1	1,000	4	-	3	4	750
	Minor Works	-	-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	20	34	-	-	-	35	238	-	-
Civils	Underbridges	m ²	6,388	9	14	10,582	1	12,077	14	28	15,655	2
	Overbridges (incl BG3)	m ²	-	-	-	-	-	3,003	4	11	3,003	4
	Major Structures	-	-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	11	-	-	11	-	-	-	-	-	-
	Culverts	m ²	394	2	3	797	4	177	-	3	379	8
	Footbridges	m ²	342	-	4	1,130	4	-	-	-	-	-
	Coastal & Estuarial Defences	m	4,810	2	5	4,810	1	-	-	-	-	-
	Retaining Walls	m ²	553	2	2	553	4	1,219	1	1	1,219	1
	Structures Other	-	-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	542	5	15	1,365	11	479	7	22	1,048	21
	EW Drainage	m	10,052	1	3	19,792	0	2,416	1	3	9,010	0
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	21	46	-	-	-	27	68	-	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)	-	-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)	-	-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Buildings (FS)	m ²	-	-	-	-	-	154	-	-	154	-
	Platforms (FS)	m ²	372	-	-	372	-	1,495	1	2	1,645	1
	Canopies (FS)	m ²	-	-	-	-	-	2,460	1	2	3,385	1
	Train sheds (FS)	m ²	-	-	-	-	-	1,500	-	-	1,500	-
	Footbridges (FS)	m ²	-	-	-	-	-	188	1	2	188	11
	Lifts & Escalators (FS)	-	-	-	-	-	-	-	-	-	-	-
	Other (FS)	-	6,560	1	1	6,560	0	-	-	-	-	-
	Light Maintenance Depots	m ²	60,000	-	-	60,000	-	-	-	-	-	-
	Depot Plant	-	-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	1	-	-	1	-	-	-	-	-	-
	MDU Buildings	m ²	-	-	-	-	-	591	-	-	591	-
	NDS Depot	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	1	1	-	-	-	3	6	-	-

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
	Signalling Power Cables	km	-	-	-	-	-	-	-	-	-	-
	Signalling Supply Points	No.	-	-	-	-	-	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-	-	-	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	18	-	-	36	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	3	-	1	3	333	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		22	-	-	22	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	11	1	1	27	37	16	1	1	19	53
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	1	2	-	-	-	1	1	-	-

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

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – In Conventional Plan Line Renewal there was a decrease in the unit cost in 2017-18 compared to the prior year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. Plain Line Refurbishment has a decrease for similar reasons as above. There was a large increase in the unit cost for Off Track but there were only two projects in each year with the volumes decreasing year-on-year by 75%. Therefore it is not possible to do any meaningful variance analysis.
- (3) Signalling – There is a negative variance in the unit cost on Level Crossings between when you compare the last two years. However there were only two projects in this time span these were Cardiff in 2016-17 and North Wales Cost in 2018. As there were only two projects it is meaningless to compare the average unit costs between the years. Level crossings are bespoke jobs and a range of unit costs is to be expected due to the differing complexity of the work.

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

In £m 2017-18 prices unless stated

- (4) Civils – There was an increase in the unit rate of Retaining Walls. However in the current year there as only one project which was at Pontypridd. It is not meaningful therefore to compare an average unit cost between the years. There was a decrease in the unit rate of the Earthworks. The reason for this was that in the prior year there was proportionally much more embankment and rock cutting work than in the current year. These sub types of renewals tend to me the most expensive component of Earthworks.
- (5) Telecoms – There has been a decrease in the unit cost in the Network category in the current year. There was only one project in this category and it ran over both years. There was no increase in the cost but the total volumes delivered has increased in the current year which by definition reduces the unit cost.

Statement 1: Summary regulatory financial performance, Wessex

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	318	322	(4)	1,284	1,279	5	322
Fixed Income	28	27	1	103	100	3	24
Variable Income	105	123	(18)	423	462	(39)	107
Other Single Till Income	106	106	-	415	401	14	108
Opex memorandum account	(6)	-	(6)	(10)	-	(10)	(4)
Total Income	551	578	(27)	2,215	2,242	(27)	557
Operating expenditure							
Network operations	41	29	(12)	143	120	(23)	34
Support costs	35	38	3	132	159	27	27
Traction electricity, industry costs and rates	67	83	16	276	305	29	66
Network maintenance	112	85	(27)	415	369	(46)	97
Schedule 4	19	18	(1)	82	67	(15)	16
Schedule 8	54	-	(54)	129	1	(128)	36
Total operating expenditure	328	253	(75)	1,177	1,021	(156)	276
Capital expenditure							
Renewals	134	245	111	956	955	(1)	200
PR13 enhancement expenditure	190	204	14	549	569	20	206
Non PR13 enhancement expenditure	-	-	-	9	-	(9)	3
Total capital expenditure	324	449	125	1,514	1,524	10	409
Other expenditure							
Financing costs	171	166	(5)	538	570	32	139
Corporation tax (received)/paid	-	-	-	(1)	1	2	-
Total other expenditure	171	166	(5)	537	571	34	139
Total expenditure	823	868	45	3,228	3,116	(112)	824

Statement 1: Summary regulatory financial performance, Wessex – continued

In £m 2017-18 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 in the other statements of this document.
- (2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income is in line with determination in the year and control period to date. Income is higher than the previous year which is mostly due to changes in the way the company is funded, with compensating reductions in the level of Grant income received this year. This is set out in more detail in Statement 6.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure). The control period to date is lower than the determination target with the lower electricity being the overwhelming contributor. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is in line with the determination assumption. Income in the control period to date is favourable as extra services offered to operators has increased station and depot income which has helped offset lower than expected property rental income. These variances are 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 (June 2017). This year, negative amount reported in the current year is largely due to costs recognised on the volume incentive. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of higher signaller costs arising from a higher CP4 exit cost base than the regulator assumed, difficulties achieving efficiency targets set in the PR13 and additional costs from an enlarged stations portfolio and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Network Operations costs are discussed in more detail in Statement 7a.
- (8) Operating expenditure - Support costs are lower than the determination reflecting continued efficiencies made across the business and non-recurring savings achieved by Group. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are higher than the previous year which, as noted in last year's Regulatory financial statements, benefited from an actuarial reassessment of insurance liabilities. Support costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Wessex – continued

In £m 2017-18 prices unless stated

- (9) Operating expenditure - Traction electricity, industry costs and rates are favourable to the determination largely due to lower electricity costs (offset by lower recoveries of these costs from operators through income). Traction electricity, industry costs are discussed 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. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to difficulties achieving the regulator's efficiency targets, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are broadly in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are broadly similar to the determination as higher average costs of possessions has been alleviated by deferral of renewals activity requiring network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Schedule 4 costs are discussed 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. Increased network traffic, infrastructure failures and some one-off incidents, notably the snow that Storm Emma brought, contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year mainly due to ever-tightening benchmarks. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to net deferrals of activity more than offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is in line with the determination targets although this is also due to the combination of higher underlying costs offset by deferrals. Renewals are lower than the previous year with decreases across almost all categories as Network Rail seeks to invest its limited funds in the most optimal way. As the regulator expected more renewals work was undertaken in earlier years of the control period. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline which was impacted by a receipt of a capital grant from DfT which reduced the level of investment that was eligible for RAB addition. These variances are set out in more detail in Statement 3.
- (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 so the higher investment in the current year and the control period to date is axiomatic. There is limited investment in this category this year as set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Wessex – continued

In £m 2017-18 prices unless stated

- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are higher than the determination due to higher average net debt throughout the year. Costs in the control period to date are lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Wessex

In £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	4,250	3,980	270
Indexation to 2016-17 prices	344	323	21
Opening RAB for the year (2016-17 prices)	4,594	4,303	291
Indexation for the year	178	167	11
Opening RAB (2017-18 prices)	4,772	4,470	302
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	114	245	(131)
PR13 enhancements	192	254	(62)
Non-PR13 enhancements	-	-	-
Total enhancements	192	254	(62)
Amortisation	(219)	(219)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2018	4,859	4,750	109

RAB Regulatory financial position - cumulative, Wessex

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2016-17	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	4,127	4,404	4,587	4,772	4,127
Adjustments for the actual capital expenditure outturn in CP4	117	-	-	-	117
Renewals	294	293	184	114	885
PR13 enhancements	61	90	209	192	552
Non-PR13 enhancements	6	-	3	-	9
Total enhancements	67	90	212	192	561
Amortisation	(200)	(200)	(211)	(219)	(830)
Adjustments for under-delivery of regulatory outputs	(1)	-	-	-	(1)
Closing RAB	4,404	4,587	4,772	4,859	4,859

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

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (3) The opening RAB for the year is higher than the regulator anticipated in its' determination. A large part of this is 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 the first three years of the control period 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 re-profiling of activity as well as 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 lower than the regulator assumed. This is mainly due to changes in the baseline expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. In addition, this year a grant was received from DfT as a contribution towards the enhancement portfolio in England & Wales, an element of which was allocated to each operational route. This contribution reduced the amount eligible for RAB addition.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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. Whilst there was expenditure in this heading in previous years there was no such investment in the current year.

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

In £m 2017-18 prices unless stated

- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	224	232	255	245	956
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	20	-	-	-	20
Capitalised financing on CP4 deferrals	-	1	1	1	3
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (renewals)	244	233	256	246	979
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(43)	14	(139)	(191)	(359)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(2)	(4)	(12)	(19)
Adjustments for efficient overspend	118	51	84	79	332
Capitalised financing on efficient overspend	2	7	9	13	31
25% retention of efficient overspend	(29)	(12)	(22)	(19)	(82)
Capitalised financing on efficient overspend 25% retention	(1)	(2)	(2)	(2)	(7)
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	1	-	10
Capitalised financing on efficient overspend through spend to save framework	1	-	1	(1)	1
Retention of efficient overspend through spend to save framework	-	-	-	1	1
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other adjustments	(2)	-	-	-	(2)
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	294	293	184	114	885
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	(1)	(5)	(5)	1	(10)
Adjustment for 25% retention of efficient overspend	30	12	21	18	81
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	-	-	-	1	1
Total actual renewals expenditure (see statement 9)	323	300	200	134	957

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

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	55	64	127	254	500
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	23	(23)	-	-	-
Capitalised financing on CP4 deferrals	-	1	-	-	1
Baseline adjustments	-	34	85	(50)	69
Capitalised financing on Baseline adjustments	-	-	3	4	7
Adjustments to DfT funding	-	-	-	-	-
Capitalised financing on adjustments to DfT funding	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (enhancements)	78	76	215	208	577
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(21)	16	(6)	(15)	(26)
Capitalised financing on acceleration / (deferrals) of expenditure	-	(1)	-	(1)	(2)
Adjustments for efficient overspend	4	-	-	1	5
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	-	-	-	-	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price 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	-	-	-	-	-
Retention of efficient overspend through spend to save framework	-	-	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	61	90	209	192	552
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	6	-	3	-	9
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)	-	-	-	(1)
Capitalised financing on non-PR13 enhancements expenditure	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of 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	-	3	-	9
Total enhancements (added to the RAB - see statement 2a)	67	90	212	192	561
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	-	(1)	(3)	(3)	(7)
Adjustment for 25% retention of efficient overspend	2	-	-	1	3
Other Adjustments	-	-	-	-	-
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	7	5	8	30	50
Other adjustments	-	-	-	-	-
Total actual enhancement expenditure (see statement 3)	76	94	217	220	607

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

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening three years of the control period, 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 (June 2017), 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 June 2017) 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 with notable contributions from Track, Signalling and Civils projects. 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.

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

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure. The reduction reported in the current year reflects decreased planned expenditure in this category across the whole control period compared to planned levels of investment included in Business Plans earlier in the control period.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. The increase reported in the current year reflects the reduced expenditure on such schemes compared to earlier plans as noted above.
- (9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.
- (10) 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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, 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 first year of the control period were reversed in the second year of the control period.
- (11) 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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process.

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

In £m 2017-18 prices unless stated

- (12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programmes have been re-profiled into CP6 and beyond.
- (13) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), 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 June 2017) 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 is classified as financial underperformance which is set out in more detail in Statement 5.
- (14) 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.
- (15) 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 (June 2017) 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 was reversed 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. No expenditure in this category occurred in the current year.

Statement 3: Analysis of enhancement capital expenditure, Wessex

In £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	4	4	9	14	5
Stations - Access for All (AfA)	-	5	5	16	22	6
Development	-	-	-	9	10	1
Level crossing safety	3	(3)	(6)	6	7	1
Passenger journey improvement	-	-	-	-	-	-
The strategic rail freight network	4	11	7	7	17	10
Total funds	7	17	10	47	70	23
Committed projects						
IEP Programme	-	-	-	-	-	-
Total committed projects	-	-	-	-	-	-
Named schemes						
The Electric Spine:						
DfT SOFA amount	-	-	-	-	-	-
Total Electric Spine projects	-	-	-	-	-	-
South East						
Waterloo	186	151	(35)	369	307	(62)
Total South East	186	151	(35)	369	307	(62)
HLOS capacity metric schemes						
South London HV traction power upgrade	1	6	5	3	9	6
Reading, Ascot to London Waterloo train lengthening	5	4	(1)	31	38	7
Wessex traction power supply upgrade	4	6	2	45	50	5
Total HLOS capacity metric schemes	10	16	6	79	97	18
CP4 Project Rollovers						
DC Regeneration	-	-	-	2	1	(1)
Package 7,10 Car Park West Suburban Railway	-	-	-	16	17	1
Wessex Automatic Selective Door Opening	-	-	-	1	2	1
Station Security	-	-	-	-	-	-
Other CP4 Rollover	-	-	-	5	-	(5)
Total CP4 rollovers	-	-	-	24	20	(4)
Other projects						
Seven day railway projects	-	-	-	5	6	1
ERTMS Cab fitment	-	(1)	(1)	-	-	-
R&D allowance	-	1	1	2	1	(1)
Depots and stabling	1	22	21	24	51	27
Income generating property schemes	6	(2)	(8)	19	17	(2)
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DfT Funding - Other	(20)	-	20	(20)	-	20
Total other projects	(13)	20	33	30	75	45
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	190	204	14	549	569	20
B) Investments not included in PR13						
Government sponsored schemes						
Other government sponsored schemes	-	-	-	1	-	(1)
Total Government sponsored schemes	-	-	-	1	-	(1)
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	-	-	-	4	-	(4)
Discretionary Investment	-	-	-	1	-	(1)
Total non PR13 enhancement expenditure	-	-	-	9	-	(9)
Total Network Rail funded enhancements (see Statement 1)	190	204	14	558	569	11
Third Party PAYG	30	-	(30)	51	-	(51)
Total enhancements (see statement 2b)	220	204	(16)	609	569	(40)

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

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £190m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£220m) less the PAYGO schemes funded by third parties (£30m).
- (5) Investment expenditure this year was broadly in line with the previous year as delivery of the enhancement portfolio continues to make significant progress.
- (6) 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 review) 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. Overall, expenditure in this category this year was lower than the baseline, continuing the trend of earlier years of the control period. Noteworthy variances between expenditure in the year and the baseline are set out below:

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

In £m 2017-18 prices unless stated

- a. Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. No investment was undertaken in this category this year due to a lack of suitable schemes identified and developed.
 - b. 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. No investment was undertaken in this category this year due to a lack of suitable schemes identified and developed.
 - c. Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year was higher than the baseline, bringing the control period to date in step with the baseline target.
 - d. 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 in the current year is lower than the baseline, which accounts for most of the variance in the control period to date. This shortfall is expected to be caught up in the final year of the control period when work is planned at Southampton.
- (7) PR13 funded schemes – named schemes - expenditure in this category is dominated by a single project: Waterloo – which aims to 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. Investment in the year and the control period to date is higher than baseline mostly due to acceleration of activity from future years to meet programme milestones. There was significant investment in this programme in the current year, including delivery of works around the station as part of a large blockade which necessitated closing numerous platforms during the summer.
- (8) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline mainly due to slower delivery on South London HV traction power upgrade. The control period to date position is due to lower spend across all programmes. The following notable variances between expenditure and baselines are set out below:
- a. South London HV traction power upgrade – this project aims to expand the capability of the traction power system to facilitate the reliable operation of future enhanced train timetables and increased train lengths in the inner area of the Wessex and South East Routes in CP6 and beyond. Expenditure on this programme is lower than the Hendy baseline as work has been postponed until CP6.
 - 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 in the year is in line with the Hendy target but the control period to date costs are lower. The lower investment so far this control period is a combination of higher underlying costs (which has resulted in financial underperformance being recognised (refer to Statement 5a)) more than offset by deferral. This includes deferral of the Feltham element of the scheme into future years arising from delays in local council delivering highway mitigation works. Most of the programme deferral to date is expected to be recovered in the final year of the control period.

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

In £m 2017-18 prices unless stated

- 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 in the current year is slightly lower than the baseline adding to the saving in the control period to date. This underspend is expected to be caught up in the final year 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. Expenditure in this category this year is negligible as the projects are now substantially complete. Notable variances between the funding available and actual spend are set out below:
- a. 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 for the current year and the control period to date as this programme is substantially complete.
 - b. 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 in the current year is limited as most of the programmes are now complete.
- (10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a capital grant from DfT, which was located between the operational routes, which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is still lower than the ORR assumed mainly due to slower utilisation of the Depots & Stabling fund. Notable variances to the baseline include:
- a. 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 in the year is much lower than the baseline, continuing the trend from earlier years of the control period. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT.
 - 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 6a). 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 current year is higher than the baseline bringing the control period to date investment in step with the regulator's target.

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

In £m 2017-18 prices unless stated

- c. Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period to date which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry and the funds to complete such projects. As part of the Hendy review, the scarce funds available were diverted onto those programmes that were considered to deliver better strategic outputs for the industry. As a result, funding available for this category was minimised.
 - d. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme in England & Wales, an element of which was attributed to each of the operational routes. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB (refer to Statement 2a).
- (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 2a) or recognised as financial performance (refer to Statement 5c) 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. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.
 - b. PAYGO – as noted above, this year DfT made a contribution to the enhancement portfolio in England & Wales, an element of which was allocated to each operational route, reducing the amount that is added to the RAB in the above categories and increasing expenditure in this area. This extra grant is the main component of the PAYGO funding this year.

Statement 4: Net debt and financial ratios, Wessex

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	3,291	3,042	(249)	2,591	2,527	(64)
Income						
Grant income	(318)	(322)	(4)	(1,231)	(1,227)	4
Fixed charges	(28)	(27)	1	(99)	(96)	3
Variable charges	(105)	(123)	(18)	(406)	(442)	(36)
Other single till income	(106)	(106)	-	(399)	(386)	13
Total income	(557)	(578)	(21)	(2,135)	(2,151)	(16)
Expenditure						
Network operations	41	29	(12)	137	118	(19)
Support costs	35	38	3	125	152	27
Traction electricity, industry costs and rates	67	83	16	262	294	32
Network maintenance	112	85	(27)	398	355	(43)
Schedule 4	19	18	(1)	78	65	(13)
Schedule 8	54	-	(54)	125	1	(124)
Renewals	134	245	111	911	917	6
PR13 enhancement	190	254	64	532	488	(44)
Non-PR13 enhancement	-	-	-	10	-	(10)
Total expenditure	652	752	100	2,578	2,390	(188)
Financing						
Interest expenditure on nominal debt - FIM covered	26	57	31	121	187	66
Interest expenditure on index linked debt - FIM covered	18	22	4	73	82	9
Expenditure on the FIM	20	36	16	96	129	33
Interest expenditure on government borrowing	58	-	(58)	117	-	(117)
Interest on cash balances held by Network Rail	-	(2)	(2)	(1)	(6)	(5)
Total interest costs	122	113	(9)	406	392	(14)
Accretion on index linked debt - FIM covered	49	53	4	118	178	60
Total financing costs	171	166	(5)	524	570	46
Corporation tax	-	-	-	(1)	1	2
Other	72	-	(72)	72	45	(27)
Movement in net debt	338	340	2	1,038	855	(183)
Closing net debt	3,629	3,382	(247)	3,629	3,382	(247)

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	0.71	0.72	0.71	0.07	0.97
FFO/interest	2.95	2.94	2.65	1.87	2.91
Net debt/RAB (gearing)	69.4%	70.0%	71.6%	74.7%	71.1%
FFO/debt	8.9%	8.4%	8.3%	6.3%	9.7%
RCF/debt	5.7%	5.4%	5.3%	2.9%	6.4%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.4%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	n/a

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

In £m nominal unless otherwise stated

Note:

- (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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Wessex as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to Wessex 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) Net debt attributable to Wessex at 31 March 2018 is £0.25bn higher than the regulator assumed. This was largely due to higher net debt at the start of the year, as set out in previous years' Regulatory financial statement.
- (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 other 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 as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(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 made 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 higher than the regulator assumed this year. This is largely due to higher average net debt during the year. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are marginally higher than the previous year which, *ceteris paribus*, is expected as the interest expense on index-linked debt in the previous year is added to the principle for future years and there are no scheduled repayments of this type of debt in the current control period. Additionally, RPI this year has been higher than the previous year, thus increasing the interest expense recognised in 2017/18.
- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year.

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

In £m nominal unless otherwise stated

- 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this “cost of carry” is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are slightly lower than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) which more than offsets higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are due to a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of funding made available during the course of construction on enhancement projects.

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

In £m nominal unless otherwise stated

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

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail to just about cover its interest costs through its trading profits (including an assumption for steady state renewals) with any emerging 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 Maintenance costs and lower turnover partly offset by savings in Support costs as described elsewhere in these accounts. The decline in this ratio compared to the previous year is mostly due to higher interest costs this year. For the purposes of calculating this ratio, accretion interest costs are excluded as they do not result in cash outflows (at least in the current control period). Interest costs (excluding accretion) are higher than the previous year as, following the aforementioned reclassification of Network Rail to become a Central Government Body, a higher proportion of debt, and therefore interest costs, comes from government rather than through accruing debt instruments placed in capital markets.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

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

In £m nominal unless otherwise stated

- (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 2017/18 is higher than the regulatory comparative which is mainly due to higher net operational costs partly offset by interest savings and a lower opening debt: RAB ratio at the start of the control period. Efficient capital overspends in the control period has also contributed to the higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail’s business is to be expected.
- (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 adverse variance to the regulator’s assumption is due to higher operating costs than planned, notably 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 but also due to higher net operational costs throughout the control period to date and adverse movements in working capital. The decline in the ratio this 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, which all get harder with each passing year.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Wessex

In £m 2017-18 prices unless stated

2017-18								
	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 $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	318	322	(4)	(4)	-	-	-	-
Fixed Income	28	27	1	1	-	-	-	-
Variable Income	65	69	(4)	-	-	-	(4)	(4)
Other Single Till Income	106	106	-	-	-	-	-	-
Opex memorandum account	(6)	-	(6)	(2)	-	-	(4)	(4)
Total Income	511	524	(13)	(5)	-	-	(8)	(8)
Expenditure								
Network operations	41	29	(12)	-	-	-	(12)	(12)
Support costs	35	38	3	-	-	-	3	3
Industry costs and rates	26	25	(1)	2	-	-	(3)	(3)
Traction electricity	1	4	3	-	-	-	3	3
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	112	85	(27)	-	(5)	-	(22)	(22)
Schedule 4 costs	19	18	(1)	-	13	-	(14)	(14)
Schedule 8 costs	54	-	(54)	-	-	-	(54)	(54)
Renewals	134	245	111	-	191	-	(80)	(20)
PR13 Enhancements	190	204	14	-	15	-	(1)	(1)
Non PR13 Enhancements	-	-	-	-	-	-	-	-
Financing Costs	171	166	(5)	(5)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	783	814	31	(3)	214	-	(180)	(120)
Total:			18	(8)	214	-	(188)	(128)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(128)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(28)
Under-delivery of train performance requirements (CaSL)								(9)
Missed milestones for asset management - data quality								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(37)
Total financial out / (under) performance to be recognised								(165)

Statement 5a: Total financial performance, Wessex - continued

In £m 2017-18 prices unless stated

	Cumulative							
	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 $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	1,284	1,279	5	5	-	-	-	-
Fixed Income	103	100	3	3	-	-	-	-
Variable Income	256	267	(11)	-	-	-	(11)	(11)
Other Single Till Income	415	401	14	-	-	-	14	14
Opex memorandum account	(10)	-	(10)	(6)	-	-	(4)	(4)
Total Income	2,048	2,047	1	2	-	-	(1)	(1)
Expenditure								
Network operations	143	120	(23)	-	-	-	(23)	(23)
Support costs	132	159	27	2	-	-	25	25
Industry costs and rates	101	98	(3)	3	-	-	(6)	(6)
Traction electricity	8	11	3	-	-	-	3	3
Reporter's fees	-	1	1	-	1	-	-	-
Network maintenance	415	369	(46)	-	21	-	(67)	(67)
Schedule 4 costs	82	67	(15)	-	18	-	(33)	(33)
Schedule 8 costs	129	1	(128)	-	-	-	(128)	(128)
Renewals	956	955	(1)	1	332	-	(334)	(84)
PR13 Enhancements	549	569	20	-	25	-	(5)	(2)
Non PR13 Enhancements	9	-	(9)	-	(9)	-	-	-
Financing Costs	538	570	32	32	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(1)	1	2	-	2	-	-	-
Total Expenditure	3,061	2,921	(140)	38	390	-	(568)	(315)
Total:			(139)	40	390	-	(569)	(316)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(316)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(68)
Under-delivery of train performance requirements (CaSL)								(22)
Missed milestones for asset management - data quality								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								(1)
Total adjustment for under-delivery outputs								(95)
Total financial out / (under) performance to be recognised								(411)

	2017-18			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)	(54)	14	(167)	(195)	28
Total variance not included in total	(40)	(54)	14	(167)	(195)	28
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	54	(14)	167	195	(28)
Total variance not included in total	40	54	(14)	167	195	(28)

Statement 5a: Total financial performance, Wessex – continued

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 in the year and the control period to date 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.
- (3) Variable income – for the year and control period to date, Network Rail has earned less mostly as a result of lower capacity charges and variable track access income as Wessex have not been able to keep up with the pace of increases in regulatory targets. 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. Variable income is set out in more detail in Statement 6a.

Statement 5a: Total financial performance, Wessex – continued

In £m 2017-18 prices unless stated

- (4) Other single till income – this year, financial performance is neutral with lower property rental income has been offset by income earned from offering extra services to operators at stations and depots. The favourable performance in the control period to date is largely driven by higher fees earned from providing extra services to operators at stations and depots and additional property sales which has offset lower property rental income. Other single till income is set out in more detail in Statement 6a.
- (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 and in the control period to date. Slower growth in passenger numbers and revenue compared to the determination expectation has resulted in financial underperformance being recognised this year. The performance in the current year has resulted in underperformance in the control period to date. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

Statement 5a: Total financial performance, Wessex – continued

In £m 2017-18 prices unless stated

- (7) Support costs – costs are lower than the determination reflecting continued efficiencies made across the business, continuing the trend of earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D.
- (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. British Transport Police incurred additional costs this year in response to terrorist attacks targeted at major transport hubs (including Manchester Victoria and London Bridge), an element of which is passed onto Network Rail. In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police services over and above the core contract to help protect the travelling public and improve the travelling experience. The variances for the control period to date arises from similar causes.
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity which is partly offset by lower electrification receipts in freight and open access (which are included as part of the Other single till income variance). The control period to date position reflects similar factors to those noted above.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the control period to date, 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.

Statement 5a: Total financial performance, Wessex – continued

In £m 2017-18 prices unless stated

- (11) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (12) Schedule 4 costs – costs are broadly in line with the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs this year included the impact of Storm Emma in February which resulted in number of services being cancelled in light of the snow. Costs in the control period to date are higher than the regulatory assumption which is a combination of undertaking less renewals activity partially offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance.

Statement 5a: Total financial performance, Wessex – continued

In £m 2017-18 prices unless stated

- (13) Schedule 8 costs – costs are greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included a derailment at Waterloo station.
- (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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track and civils), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (15) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with the largest contribution this year and in the control period to date is from Reading, Ascot to Waterloo train lengthening. Individual programme variances are 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. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Wessex – continued

In £m 2017-18 prices unless stated

- (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 higher than the regulator expected mainly due to higher levels of average net debt during the year compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.
- (18) Corporation tax – no income tax payments have been made this year, although the control period to date position is favourable. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed at the end of the control period when a full picture is available.

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. No payment is made for any missed regulatory output, it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.
- (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 2017/18, continuing the trend of the earlier years 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 2017/18, continuing the trend of earlier years 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.
- (4) Missed enhancement milestones – in line with the regulator's rules 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 there have been no missed outputs since which have impacted customer outputs.

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

In £m 2017-18 prices unless stated

2017-18

	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	17	37	(20)	(5)		(5)	-	-
Signalling	59	75	(16)	(4)		(4)	-	-
Civils	7	31	(24)	(6)		(6)	-	-
Buildings	14	14	-	-		-	-	-
Electrical power and fixed plant	-	12	(12)	(3)		(1)	(2)	-
Telecoms	2	2	-	-		-	-	-
Wheeled plant and machinery	3	3	-	-		-	-	-
IT	2	2	-	-		-	-	-
Property	3	3	-	-		-	-	-
Other renewals	4	12	(8)	(2)		(2)	-	-
Total	111	191	(80)	(20)		(18)	(2)	-

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	(32)	80	(112)	(28)		(27)	(1)	-
Signalling	99	151	(52)	(13)		(15)	2	-
Civils	(22)	50	(72)	(18)		(14)	(4)	-
Buildings	-	12	(12)	(3)		(3)	-	-
Electrical power and fixed plant	12	52	(40)	(10)		(5)	(5)	-
Telecoms	13	13	-	-		-	-	-
Wheeled plant and machinery	23	23	-	-		-	-	-
IT	(7)	(7)	-	-		-	-	-
Property	11	11	-	-		-	-	-
Other renewals	(98)	(52)	(46)	(12)		(3)	(9)	-
Total	(1)	333	(334)	(84)		(67)	(17)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

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, continuing the trend from the previous years on the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track, Civils and CP4 rollover items) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

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

In £m 2017-18 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Approximately one-quarter of this was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. The practical deliveries of using High Output delivery methods resulted in Wessex electing not to use this delivery method in 2017/18. However, there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which all contributed to the financial underperformance this year. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions. Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets, continuing the trend from earlier years of the control period. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. Increased minor works has also been required due to faster than expected deterioration of key assets at Feltham, Havant and Southampton. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. 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 has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2017-18 prices unless stated

- (4) Civils – financial underperformance has been reported for this category this year, continuing the pattern from earlier years of the control period. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network, notably a landslip at Wrecchesam. The unit rates on these type of jobs are higher than usual given the time critical nature of the incidents. Adverse weather also prevented delivery of a bridge at Wandsworth resulting in the project having to be re-commissioned later.
- (5) Buildings – whilst financial performance in the current year is neutral there is financial underperformance in the control period to date. 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. The efficiency plans for the control period included improved procurement strategies, better planning and increased contractor-led designs to drive innovation. Instead, contractor prices have increased rapidly this control period, fuelled by increased in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. In addition, delays in delivering improvements at Brockenhurst station (to coincide with track renewals projects) have led to project prolongation which has incurred additional costs.
- (6) Electrical power and fixed plant – financial underperformance has been reported for this asset category, continuing the trend of earlier years of the control period. The efficiency targets included in the regulator's determination have proved to be over optimistic with expected savings from better contractor procurement and improved asset knowledge leading to scope savings not materialising. Contractor procurement has been adversely impacted by the aforementioned increase in tender prices and scope savings and changes to asset policies have not been able to be identified without compromising passenger safety. In addition, unforeseen safety compliance costs (SIN 119, hook switch solutions) have added additional scope into the workbank with no corresponding increase in the funding available. The costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation, which has been exacerbated by priority for plant being given to support the enhancement programmes elsewhere on the network. Constricted workbanks have also increased unit costs (as decreases in volumes do not manifest themselves in proportionate reductions in portfolio costs). Also, contractor performance has been lower than expectation and commercial claims have driven costs higher.

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

In £m 2017-18 prices unless stated

(7) Other – this is made up of a number of different categories including the following:

- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
- b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.
- c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constraints the activities required to build capacity for CP6 and beyond is now funded through renewals.
- d. CP4 rollover: 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. The underperformance recognised in the control period to date includes notable contributions from Basingstoke campus development, electrification projects and FTN.

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

In £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Waterloo	(35)	(39)	-	4	1
Seven day railway	-	-	-	-	-
Reading, Ascot to Waterloo Train Lengthening	(1)	9	-	(10)	(3)
Other Enhancements	50	45	-	5	1
Total	14	15	-	(1)	(1)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Waterloo	(62)	(62)	-	-	-
Seven day railway	1	1	-	-	-
Reading, Ascot to Waterloo Train Lengthening	7	17	-	(10)	(3)
Other Enhancements	65	60	-	5	1
Total	11	16	-	(5)	(2)

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

In £m 2017-18 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 and so 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 their 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 incoming 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). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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) Waterloo – tight control of contingencies, along with successful delivery of works during a blockade over the summer, has allowed the expected costs of the programme to reduce back in line with the Hendy baseline. The positive financial performance recognised this year negates the financial underperformance recognised earlier in the control period.
- (2) Reading, Ascot to Waterloo Train lengthening – the anticipated costs of this programme increased in the current year leading to financial underperformance being recognised. This primarily relates to increased costs around the Feltham area, including delays to the programme to coincide with local council enabling works and changes to the engineering standards and design to satisfy local council 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. In addition, minor financial performance variances are captured through this heading.

Statement 5d: Total financial performance - REBS performance, Wessex

In £m 2017-18 prices unless stated

	A	B	C	D	E	F	G
				Cumulative to 2017-18			
	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	65	71	(6)	-	-	-	(6)
Capacity charge	126	128	(2)	-	-	-	(2)
Electricity asset utilisation charge	4	5	(1)	-	-	-	(1)
Property income	173	165	8	-	-	-	8
Expenditure							
Network operations	143	115	(28)	-	-	-	(28)
Support costs	132	154	22	-	2	-	20
RSSB and BT Police	34	30	(4)	-	-	-	(4)
Network maintenance	415	382	(33)	22	-	-	(55)
Schedule 4 costs	82	76	(6)	27	-	-	(33)
Schedule 8 costs	129	-	(129)	-	-	-	(129)
Renewals	956	897	(59)	275	-	(250)	(84)
Total REBS performance			(238)	324	2	(250)	(314)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(68)
Under-delivery of train performance requirements (CaSL)							(22)
Missed milestones for asset management - data quality							-
Missed Enhancement milestones							(4)
Total adjustment for under delivery of outputs and reduced sustainability							(94)
Cumulative performance to end of 2017-18							(408)
Less cumulative outperformance recognised up to the end of 2016-17							(293)
Net REBS performance for 2017-18							(115)

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 2017-18 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, Wessex

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	318	322	(4)	1,284	1,279	5	322
Franchised track access income							
Fixed charges	28	27	1	103	100	3	24
Variable charges							
Variable usage charge	14	16	(2)	57	65	(8)	15
Traction electricity charges	40	54	(14)	167	195	(28)	43
Electrification asset usage charge	1	1	-	4	4	-	1
Capacity charge	30	32	(2)	125	128	(3)	30
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	20	20	-	70	70	-	18
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	105	123	(18)	423	462	(39)	107
Total franchised track access income	133	150	(17)	526	562	(36)	131
Total franchised track access and grant income	451	472	(21)	1,810	1,841	(31)	453
Other single till income							
Property income	45	52	(7)	180	186	(6)	49
Freight income	3	3	-	9	12	(3)	2
Open access income	2	1	1	5	4	1	1
Stations income	35	33	2	141	131	10	36
Facility and financing charges	12	11	1	49	43	6	12
Depots Income	9	6	3	31	24	7	8
Other income	-	-	-	-	1	(1)	-
Total other single till income	106	106	-	415	401	14	108
Total income	557	578	(21)	2,225	2,242	(17)	561

Statement 6a: Analysis of income, Wessex – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower government grants (arising from lower inflation). These shortfalls have been partly offset by extra income earned from offering additional services to operators). Income for the control period to date is lower than the regulatory target due to lower traction electricity income and freight revenue (for the reasons noted above)

Statement 6a: Analysis of income, Wessex – continued

In £m 2017-18 prices unless stated

- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only 10.96 per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table. Grant income is slightly lower than the previous year which is in line with the regulator's expectation in the PR13, with more income instead coming directly from operators through Fixed charges.

- (4) Fixed charges – fixed charge income was in line with the determination this year.. Fixed charges for the control period to date are higher than the regulator expected due to a combination of inflationary benefits as described above in the comment on Grant income. Fixed charges are higher than last year but this is mostly due to the expectation in the determination, with increased income from fixed charges offsetting lower government contributions through Grant income.
- (5) Variable usage charge – income from variable usage charges paid by train operators is lower than the determination expected. Fewer trains were ran than the determination expected, partly due to the high level of enhancements being delivered in 2017/18 which necessitated extra disruptive possessions, notably as part of the Waterloo development. The control period to date variance arises as a result of the lower passenger demand compared to the regulatory expectation.
- (6) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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). As market prices have been lower than the regulator assumed in each of the last four years, there is now a noticeable shortfall in income in the control period to date. Again, this has been largely offset by a favourable control period to date position on traction electricity costs (as shown in Statement 7a).

Statement 6a: Analysis of income, Wessex – continued

In £m 2017-18 prices unless stated

- (7) Capacity charge – in the current year this is lower than the determination as fewer trains were ran. The disruptive impact of an enhancement project to develop Waterloo station contributed to the reduced number of services during the summer.
- (8) Property income – this is lower than the determination target this year mostly due to lower revenue generated from Network Rail's commercial estate. The regulatory determination assumed that property rental income would significantly increase during the control period as Network Rail invested in new commercial opportunities. The determination also included an assumption that property investment undertaken in CP5 would result in annual yields of more than 20 per cent, significantly ahead of the rest of the market. Due to funding constraints faced by the organisation following the Office for National Statistics decision to reclassify Network Rail as a government body, investment in these schemes has been lower than planned, which has contributed to the lower income. Income for the control period to date is lower than the determination assumption with higher property sales income only partially offsetting lower rental income. As noted in previous years' 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. Property income is lower than the previous year as extra rental income was more than mitigated by fewer property disposals.
- (9) Stations income – revenue earned this year is higher than the regulator expected, continuing the trend of the control period to date, as extra services were provided to operators.
- (10) Depots income revenue earned this year is higher than the regulator expected, continuing the trend of the control period to date, as extra services were provided to operators.

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

In £m 2017-18 prices unless stated

	2017-18			Cumulative			2016-17
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Property Income							
Property rental	41	51	(10)	154	183	(29)	37
Property sales	4	5	(1)	26	20	6	12
Adjustment for commercial opex	-	(4)	4	-	(17)	17	-
Total property income	45	52	(7)	180	186	(6)	49
Freight income							
Freight variable usage charge	2	2	-	8	6	2	2
Freight traction electricity charges	-	1	(1)	-	2	(2)	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	1	-	1	1	1	-	-
Freight only line charge	-	-	-	-	2	(2)	-
Freight specific charge	-	-	-	-	-	-	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	3	3	-	9	12	(3)	2
Open access income							
Variable usage charge income	-	-	-	-	-	-	-
Open access capacity charge	-	-	-	-	-	-	-
Open access traction electricity charges	2	1	1	5	4	1	1
Fixed contractual contribution	-	-	-	-	-	-	-
Open access other income	-	-	-	-	-	-	-
Total open access income	2	1	1	5	4	1	1
Stations income							
Managed stations income							
Long term charge	3	3	-	11	12	(1)	3
Qualifying expenditure	4	3	1	17	14	3	4
Total managed stations income	7	6	1	28	26	2	7
Franchised stations income							
Long term charge	18	18	-	75	70	5	19
Stations lease income	10	9	1	38	35	3	10
Total franchised stations income	28	27	1	113	105	8	29
Total stations income	35	33	2	141	131	10	36
Facility and financing charges							
Facility charges	12	11	1	49	43	6	12
Crossrail finance charge	-	-	-	-	-	-	-
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	12	11	1	49	43	6	12
Depots income	9	6	3	31	24	7	8
Other	-	-	-	-	1	(1)	-
Total other single till income	106	106	-	415	401	14	108

Statement 6b: Analysis of other single till income (unaudited), Wessex – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	14	15	1	53	64	11	16
Signalling shift managers	2	1	(1)	8	4	(4)	-
Local operations managers	1	1	-	10	4	(6)	1
Controllers	4	2	(2)	11	9	(2)	2
Electrical control room operators	2	1	(1)	8	3	(5)	2
Total signaller expenditure	23	20	(3)	90	84	(6)	21
Non-signaller expenditure							
Mobile operations managers	3	2	(1)	11	9	(2)	3
Managed stations	5	3	(2)	17	11	(6)	4
Performance	2	1	(1)	9	4	(5)	1
Customer relationship executives	-	-	-	-	2	2	-
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	1	1	4	5	1	-
Other	9	1	(8)	20	3	(17)	6
Operations delivery	(1)	-	1	(9)	-	9	(2)
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	2	2	-	9	8	(1)	1
Other operating income	(2)	(1)	1	(8)	(6)	2	-
Total non-signaller expenditure	18	9	(9)	53	36	(17)	13
Total network operations expenditure	41	29	(12)	143	120	(23)	34
Support costs							
Core support costs							
Human resources	1	4	3	6	16	10	1
Information management	4	4	-	18	17	(1)	4
Government and corporate affairs	1	1	-	4	5	1	1
Group strategy	1	1	-	2	4	2	-
Finance	2	2	-	5	7	2	1
Business services	1	1	-	6	3	(3)	2
Accommodation	7	10	3	29	39	10	7
Utilities	3	4	1	13	16	3	3
Insurance	3	4	1	13	18	5	(1)
Legal and inquiry	-	-	-	2	2	-	1
Safety and sustainable development	1	-	(1)	8	2	(6)	3
Strategic sourcing	1	1	-	3	3	-	-
Business change	-	-	-	1	1	-	-
Other corporate functions	4	-	(4)	14	1	(13)	3
Core support costs	29	32	3	124	134	10	25
Other support costs							
Asset management services	3	3	-	12	12	-	3
Network Rail telecoms	3	3	-	14	16	2	3
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(9)	-	9	(2)
Commercial property	3	-	(3)	2	(2)	(4)	-
Group costs	(1)	-	1	(11)	(2)	9	(2)
Total other support costs	6	6	-	8	25	17	2
Total support costs	35	38	3	132	159	27	27
Traction electricity, industry costs and rates							
Traction electricity	41	58	17	175	206	31	43
Business rates	16	17	1	58	62	4	12
British transport police costs	8	6	(2)	30	26	(4)	9
RSSB costs	1	-	(1)	4	2	(2)	1
ORR licence fee and railway safety levy	1	2	1	8	7	(1)	1
Reporters fees	-	-	-	-	1	1	-
Other industry costs	-	-	-	1	1	-	-
Total traction electricity, industry costs and rates	67	83	16	276	305	29	66
Total network operations expenditure, support costs, traction electricity, industry costs and rates	143	150	7	551	584	33	127

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are slightly higher than the determination assumed this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised, partly offset by lower Traction electricity costs (mirrored by lower Traction electricity income – refer to Statement 6a) and lower costs in central functions.
- (3) 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.
- (4) Network operations costs in 2017/18 are higher than the regulator assumed. 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 higher than the regulatory assumption. From this starting position, achieving the determination cost targets in CP5 was always going to be unlikely. Also, whereas the determination assumed that costs would decrease with passing years of the control period, costs have actually increased. 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 and represented the main tactic for reducing Network operations costs in CP5. However, it has transpired that the assumptions of possible savings 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 costs, at least in the short term. Pay awards in excess of inflation at the start of the control period have also contributed to a higher signaller costs, as has new pension legislation and legal changes on how overtime costs are remunerated. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are higher than the previous year with the largest contribution arising from changes in the law regarding holiday pay as a result of an Employment Tribunal ruling as well as investment in additional performance improvement initiatives.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Once again, Support costs are lower than the determination reflecting efficiencies made across the business. Support costs are higher than the previous year which, as noted in last year's Regulatory Financial Statements, benefitted from non-recurring benefits from actuarial valuations of insurance liabilities.

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

In £m 2017-18 prices unless stated

- (6) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.
- (7) Accommodation – these property expenses were lower than the determination, continuing the trend of the control period to date. This is mainly due to operating a cheaper portfolio, including relocating operations from London to Basingstoke. Costs are comparable to the previous year.
- (8) Insurance - costs are favourable to the determination for the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslip at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (9) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category. The extra investment this control period includes delivery of 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.
- (10) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance and Human resources as the services are now provided locally.

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

In £m 2017-18 prices unless stated

- (11) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (12) Commercial Property – net costs in the year are higher than the regulatory estimate which has caused the variance in the control period to date. This is largely due to an increase in doubtful debts for tenants. Net costs in the current year are higher than the previous year due to the aforementioned increase in doubtful debts.
- (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 mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator expected. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure) and lower re-organisation costs.
- (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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is lower than the regulator's assumption in the current year and control period to date mainly due to lower traction electricity costs. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media.
- (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 6a and Statement 6b). Control period to date costs are lower than the regulator assumed. This is because the determination assumed a significant increase in market electricity prices from 2015/16 onwards but this has yet to materialise.

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

In £m 2017-18 prices unless stated

- (16) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest 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). Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency.
- (17) British Transport Police costs - expenses in the year are higher than the determination assumed. 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. This year's costs also included additional costs incurred by the British Transport Police Authority in response to terrorist incidents at major transport hubs elsewhere on the network (including Manchester Victoria and London Bridge). In addition, Network Rail has made a conscious decision to acquire additional discretionary British Transport Police over and above the core contract to help protect the travelling public and improve the travelling experience.

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

In £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	16	19	19	17	16
MOMS	2	1	2	3	3
Control	3	3	2	3	5
Planning & Performance Staff Costs	2	4	4	1	5
Managed Stations Staff Costs	1	1	1	-	2
Operations Management Staff Costs	1	3	3	4	2
Other	8	4	2	6	8
Total operations & customer services costs	33	35	33	34	41
Total Network Operations	33	35	33	34	41
Support					
Human resources					
Functional support	3	-	1	1	1
Training (inc Westwood)	2	1	1	-	-
Graduates	-	-	-	-	-
Apprenticeships	1	1	1	-	-
Other	-	-	(1)	-	-
Total human resources	6	2	2	1	1
Information management					
Support	1	1	-	-	-
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	4	4	4	4	4
Other	-	-	-	-	-
Total information management	5	5	4	4	4
Finance	2	1	1	1	2
Business Change	-	-	-	-	-
Contracts & Procurement	1	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	1	-	1
Planning & development	1	1	-	-	1
Safety & compliance	1	-	-	-	-
Other corporate services	5	1	1	1	3
Commercial property	11	7	7	7	10
Infrastructure Projects	(5)	(2)	(2)	(2)	(2)
Route Services	1	2	3	3	1
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	12	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	4	4	3	3
Network Rail Telecoms	-	4	4	3	3
Digital Railway	-	1	2	2	1
Safety Technical & Engineering	-	3	3	4	3
Government & Corporate Affairs	-	2	1	1	1
Business Services	-	1	1	2	1
Route Asset Management	-	1	(1)	(1)	-
Legal and inquiry	-	-	1	1	-
Group/central					
Pensions	-	-	-	-	-
Insurance	3	4	6	(1)	3
Redundancy/reorganisation costs	7	1	1	1	1
Staff incentives/Bonus Reduction	-	(2)	(1)	-	(1)
Accommodation & Support Recharges	-	(2)	(2)	(2)	(2)
Commercial claims settlements	-	-	(2)	-	-
ORR financial penalty	9	(2)	-	-	-
Other	-	-	-	(1)	1
Total group/central costs	19	(1)	2	(3)	2
Total support	59	33	34	27	35
Total network operations and support costs	92	68	67	61	76

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Wessex – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	44	33	(11)	171	148	(23)	42
Signalling	16	12	(4)	61	51	(10)	15
Civils	9	9	-	34	41	7	6
Buildings	11	6	(5)	12	22	10	1
Electrical power and fixed plant	7	5	(2)	25	20	(5)	6
Telecoms	2	1	(1)	8	6	(2)	2
Other network operations	21	13	(8)	93	55	(38)	23
Asset management services	2	3	1	14	13	(1)	3
National Delivery Service	(1)	4	5	(3)	17	20	(1)
Property	2	1	(1)	4	3	(1)	1
Group	(1)	(2)	(1)	(4)	(7)	(3)	(1)
Total maintenance expenditure	112	85	(27)	415	369	(46)	97

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

In £m 2017-18 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 previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 due to difficulties achieving targeted efficiencies, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by higher asset inspection costs. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling affecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but 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 base across the control period to date and is expected to continue for the remainder of CP5. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17 with some extra expenses resulting from legal changes affecting overtime.

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

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting legal changes to overtime.
- (4) Civils – costs were in line with the determination as higher asset inspection costs have been offset by savings in reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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 expenditure compared to the determination on asset inspections is widespread across most of the routes on the network. Costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are lower than the determination mainly due to the lower reactive maintenance. The increase in costs compared to the previous year are due to increased reactive maintenance requirements.

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

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, reducing the underspend in the control period to date position. Variances in this category 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 – costs for the current year are higher than the regulator assumed, continuing the trend of earlier in the control period. Efficiencies assumed in the determination in this area has proven to be difficult to achieve. In addition, lower than expected delivery of electrification renewals work has necessitated additional remediation works to maintain asset condition and performance.
- (7) Other network operations – costs for the current year are higher than the determination assumed, continuing the trend from earlier years of the control period. The higher costs in the control period to date also included the impact of extra safety and performance improvement costs. 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 re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. The higher costs also includes the impact of transitional costs incurred as a result of consolidating delivery units in Wessex. This will generate savings in the medium and long-term but necessitates some short time investment to realise these efficiencies.
- (8) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.
- (9) 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).

Statement 9a: Summary analysis of renewals expenditure, Wessex

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	28	45	17	277	245	(32)	61
Signalling	29	88	59	159	258	99	43
Civils	20	27	7	155	133	(22)	26
Buildings	2	16	14	80	80	-	18
Electrical power and fixed plant	18	18	-	85	97	12	22
Telecoms	4	6	2	16	29	13	4
Wheeled plant and machinery	6	9	3	26	49	23	6
Information Technology	5	7	2	38	31	(7)	8
Property	1	4	3	3	14	11	-
Other renewals	21	25	4	117	19	(98)	12
Total renewals expenditure	134	245	111	956	955	(1)	200

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

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially 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). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Deferrals are most evident in signalling where schemes have been pushed back into CP6, such as schemes at Feltham, Guildford and Woking. Investment is lower than the previous year with decreases across most asset categories as Network Rail seeks to invest its limited funds in the most optimal way, which has included deferring activities to the final year of the control period and with greater resources redirected to Schedule 8 and maintenance and operations activities to compensate for lower than expected improvements.
- (2) Track – costs are lower than the regulator assumed this year, reducing the overspend from earlier years of the control period. The extra costs in the control period to date are 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 opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. Consequently, Track financial underperformance has been recognised this control period (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 (June 2017) 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. Investment in the control period to date is higher than the regulator assumed. This is due to higher costs than the regulator assumed partly mitigated by deferral of activity. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan across all categories. Expenditure in the current year was lower than the previous year mainly due to reductions in the volumes delivered. This was most evident in Plain Line conventional and S&C refurbishments which both decreased by more than half compared to the previous year.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was lower than the determination expected, continuing the pattern from earlier in the control period. The higher costs were due to underlying costs being more expensive than the regulator assumed partly alleviated by deferral of programmes. 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 and consequently, activity in this area is now expected to be significantly lower than originally planned over the course of CP5. The determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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). In light of affordability and resource constraints, some activity has been pushed back into CP6, including schemes at Feltham, Guildford and Woking. Costs are lower than the previous year which included additional work on Feltham, control room migration and minor signalling works.
- (4) Civils – expenditure in the year was lower than the regulator anticipated as higher underlying costs were mitigated by deferral of activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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 for the control period to date is higher than the determination expected with higher costs across most categories. The assumed costs in Structures other are included within the appropriate heading to provide greater clarity of the underlying costs of the organisation. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network (including landslips), beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Expenditure in Earthworks continues to be higher than the regulator assumed as investment is undertaken in response to emerging asset condition. Spend is lower than the previous year which was in line with the expectation in both the determination and Network Rail's plans which both had a higher proportion of activity concentrated in the earlier years of the control period.

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

In £m 2017-18 prices unless stated

- (5) Buildings – expenditure in the year was much less than the regulator anticipated which has brought the control period to date position in line with the determination expectation. The control period to date position is due to higher underlying costs being mitigated by deferral of activity. The higher like-for-like costs continues the trend of the previous years of the control period which has been compounded by extra scope delivered at certain stations and an inability to achieve the regulator's ever increasing efficiency targets. This has been partly due to a significant increase in contractor costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. 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 (June 2017) 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 year which included more investment at Franchised stations, a package of improvement works which is now largely complete.
- (6) Electrical power and fixed plant – costs were broadly in line with the regulator's assumption this year but remains lower in the control period to date. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. 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 scope has been required on certain projects (notably for principle supply points) which has resulted in additional costs and there has been extra scope required to deliver the necessary workbank. In addition, contractor costs have been higher than expected, reflecting aforementioned increases in the Tender price index. In addition, the costs of the SCADA (Supervisory Control And Data Acquisition) programme have increased due to enabling works from other programmes not materialising, necessitating the costs to be absorbed into SCADA and programme elongation. 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 (June 2017) 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). The lower investment in the control period to date is also due to resource constraints and the requirement to invest funds optimally has resulted in investment occurring on projects in the route that are expected to provide the best immediate returns. Investment was lower than the previous year with a notable contribution from DC distribution (as Wessex LV cables replacement campaign draws to a close).
- (7) Telecoms – expenditure in the year was lower than the determination, continuing the trend of earlier years of the control period. Some of the underspend in the control period to date is expected to be caught up in the remaining year of the control period as further programmes are designed and delivered. Expenditure for the control period to date is less than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6.

Statement 9a: Detailed analysis of renewals expenditure, Wessex – continued

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. This year, expenditure was also lower across the other categories. 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. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5).
- (9) Information technology – investment in the year is lower than the determination assumed but is still much higher for the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (10) Property – costs are lower than the regulator's assumption in the current year and the control period to date. Plans are only implemented once there is a sufficiently robust business case available in order to proceed. Given the bespoke nature of these schemes annual expenditure can be uneven. The lower levels of investment reflect prioritisation of other asset categories which have more of a direct immediately impact on train performance and safety, rather than investment in projects which support the core railway activity.

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

In £m 2017-18 prices unless stated

(11) Other renewals includes the following notable items:

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).
- b. Intelligent infrastructure – expenditure is lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – expenditure was higher than the regulator assumed in the current year, which more than compensates for the slower delivery in earlier years of the control period. This year's expenditure on the fund is higher than the previous year, as activity ramps up. Notable projects delivered on the year include work on the projects in the South London part of the route as well as towards Portsmouth.
- d. Small plant – expenditure continues to be lower than the regulator's determination which is consistent with the 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 purchased 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 optimise investment strategy in this area, giving choices to the routes about where best to spend its' funds to produce the best possible results for the railway. Given the cash constraints faced by the organisation, funding has been redeployed to front line activities which have a more direct link to short term performance and safety. None of the savings in this category are included in the assessment of financial performance (Statement 5a) as these savings have been achieved through deferring machinery purchases into the future rather than through an efficiency.

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

In £m 2017-18 prices unless stated

- e. Research and development – research and development activity in the control period to date has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes have meant that the Research and development activity required to build capability for CP6 and beyond now has to be funded through renewals. As a result values are included for the first time this year. As there was no renewals funding in the determination this is included as underperformance 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).
- f. 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 with variances in the control period to date being reversed in the final year of the control period. No actual expenditure will be reported against this category in the control period so variances are expected in each year's Regulatory financial statements.
- g. CP4 rollover - following the end of the previous control period (CP4), 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. Almost all of the expenditure in the current year is on 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 more of the schemes that were rolled over from CP4 are completed.

Statement 9b: Detailed analysis of renewals expenditure, Wessex

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	10	20	10	97	106	9
High output renewal	-	2	2	43	19	(24)
Plain line refurbishment	1	1	-	21	3	(18)
S&C renewal	10	7	(3)	62	52	(10)
S&C refurbishment	1	3	2	17	16	(1)
Track non-volume	-	5	5	2	20	18
Off track	6	7	1	35	29	(6)
Total track	28	45	17	277	245	(32)
Signalling						
Full conventional resignalling	16	31	15	86	86	-
Modular resignalling	-	-	-	1	2	1
ERTMS resignalling	-	-	-	-	-	-
Partial conventional resignalling	-	18	18	1	49	48
Targeted component renewal	-	1	1	-	5	5
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	-	-	-	-	-	-
Operating strategy other capital expenditure	1	-	(1)	13	22	9
Level crossings	3	30	27	20	53	33
Minor works	8	6	(2)	35	34	(1)
Centrally managed costs	1	2	1	3	7	4
Other	-	-	-	-	-	-
Total signalling	29	88	59	159	258	99
Civils						
Underbridges	9	14	5	75	62	(13)
Overbridges	1	1	-	6	4	(2)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	-	-	1	-	(1)
Tunnels	1	2	1	4	7	3
Other assets	2	2	-	15	12	(3)
Structures other	2	2	-	14	20	6
Earthworks	5	6	1	40	28	(12)
Other	-	-	-	-	-	-
Total civils	20	27	7	155	133	(22)
Buildings						
Managed stations	-	1	1	3	17	14
Franchised stations	1	13	12	53	55	2
Light maint depots	1	-	(1)	14	2	(12)
Depot plant	-	-	-	-	-	-
Lineside buildings	-	1	1	7	2	(5)
MDU buildings	-	-	-	1	1	-
NDS depots	-	1	1	2	3	1
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	2	16	14	80	80	-

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	-	-	1	-	(1)
DC distribution	5	6	1	41	37	(4)
Conductor rail	4	4	-	16	15	(1)
SCADA	4	2	(2)	6	9	3
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	3	3	3	14	11
Other electrical power	2	1	(1)	7	5	(2)
Fixed plant	3	2	(1)	11	17	6
Total electrical power and plant	18	18	-	85	97	12
Telecoms						
Operational communications	-	-	-	-	1	1
Network	1	1	-	-	5	5
SISS	1	5	4	1	18	17
Projects and other	-	-	-	1	1	-
Non-route capital expenditure	2	-	(2)	14	4	(10)
Total telecoms	4	6	2	16	29	13
Wheeled plant and machinery						
High output	-	1	1	9	11	2
Incident response	-	-	-	-	1	1
Infrastructure monitoring	1	1	-	1	2	1
Intervention	4	2	(2)	6	12	6
Materials delivery	-	-	-	4	1	(3)
On track plant	1	1	-	3	7	4
Seasonal	-	-	-	-	4	4
Locomotives	-	-	-	-	-	-
Fleet support plant	-	-	-	-	2	2
Road vehicles	-	4	4	2	9	7
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	6	9	3	26	49	23
Information Technology						
IM delivered renewals	5	6	1	36	28	(8)
Traffic management	-	1	1	2	3	1
Total information technology	5	7	2	38	31	(7)
Property						
MDUs/offices	1	3	2	2	10	8
Commercial estate	-	1	1	1	4	3
Corporate services	-	-	-	-	-	-
Total property	1	4	3	3	14	11
Other renewals						
Asset information strategy	2	3	1	14	17	3
Intelligent infrastructure	-	2	2	3	8	5
Faster isolations	15	3	(12)	22	14	(8)
LOWS	-	-	-	-	1	1
Small plant	1	1	-	1	4	3
Research and development	1	-	(1)	1	-	(1)
Phasing overlay	-	16	16	-	(25)	(25)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	1	-	(1)	75	-	(75)
Other	1	-	(1)	1	-	(1)
West Coast	-	-	-	-	-	-
Total other renewals	21	25	4	117	19	(98)
Total renewals	134	245	111	956	955	(1)

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Wessex – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 10: Other information, Wessex

In £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	19	18	(1)	82	67	(15)	16
Access charge supplement Income	(20)	(20)	-	(70)	(70)	-	(18)
Net (income)/cost	(1)	(2)	(1)	12	(3)	(15)	(2)
Schedule 8							
Performance element income	-	-	-	-	-	-	-
Performance element costs	54	-	(54)	129	1	(128)	36
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	54	-	(54)	129	1	(128)	36

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	(4)	(4)	-
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	(1)	(4)	(3)
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	(1)	1	(1)
Reporters fees	-	(1)	-
Other industry costs	-	-	-
Difference in CP4 opex memo	-	(2)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	(6)	(10)	(4)

D) Net income / (costs) from alliances:

	2017-18	Cumulative	2016-17
Payment from South West Trains	-	-	-
Total alliance income	-	-	-
Payment to South West Trains	-	(2)	-
Total alliance costs	-	-	-
Net alliance income / (cost)	-	-	-

Statement 10: Other information, Wessex – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 (ie on an accounting basis) rather than the physical transfer of cash or cash equivalents.

Comments:

- (1) Schedule 4 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are broadly in line with the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance. As the level of renewals activity decreased by more than the decrease in Schedule 4 costs financial underperformance has been recognised this year (refer to Statement 5a). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are higher than the regulatory assumption which is a combination of undertaking less renewals activity partially offset by the average cost of possessions exceeding the regulatory target resulting in the recognition of financial underperformance (refer to Statement 5a). In addition, costs this year included the impact of Storm Emma in February which resulted in number of services being cancelled in light of the snow.

Statement 10: Other information, Wessex – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included a derailment at Waterloo station. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still as well as additional infrastructure failures.
- (3) The opex memorandum currently shows a net loss for this year which is primarily due to penalties under the Volume Incentive mechanism (see Statement 12). The control period to date position includes these penalties as well as lower than expected Business rates costs.

Statement 11:

There is no Statement 11 required for Wessex

Statement 12: Volume incentives, Wessex

In £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(7)	(1)	27	28	0.2%	1.56	pence per passenger train mile
Passenger farebox (millions)	(14)	(3)	1,080	1,155	3.0%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	0	1	1	2.3%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	(1)	0	722	741	3.3%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	(23)	(4)					

The cumulative volume incentive is determined by the following calculation:

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

Where:

A_t = Actual in year quantity

B = 2017-18 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Wessex – continued

In £m 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets and has recognised a loss as a result, also causing a loss in the control period to date. This underperformance mainly arises from lower passenger farebox income and train miles. The disruptive impact of enhancement projects at Waterloo over the summer contributed to this as did a slower growth in demand and revenue than the regulator assumed in the determination for CP5.

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

In £m 2017-18 prices unless stated

		FY18		Full Project			FY17		Full Project			
				A	B	$C = A \div B$			A	B	$C = A \div B$	
Asset	Activity type	Unit	Volume	Cost	Total AFC	Total AFV	Unit Cost	Volume	Cost	Total AFC	Total AFV	Unit Cost
			unit	£m	£m	unit	£k/unit	unit	£m	£m	unit	£k/unit
Track	Conventional plain line Renewal	km	22	11	50	52	962	46	27	31	64	484
	High Output Renewal	km	-	-	-	-	-	1	-	20	66	303
	Plain line Refurbishment	km	6	2	2	6	333	18	4	5	18	278
	S&C Renewal/Refurbishment	point ends	36	9	13	59	220	63	12	12	61	197
	Track Drainage	lm	27,948	3	3	27,948	0	32,628	8	10	53,906	0
	Fencing	km	-	-	1	10	100	11	-	3	84	36
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	51	1	1	51	20	160	3	2	160	13
Other		-	-	-	-	-	-	-	-	-	-	
Total			-	26	70	-	-	-	54	83	-	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Targeted Component Renewal	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Train Fitment		-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs		-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other		-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	1	1	3	1	3,000	-	-	-	-	-
	Minor Works		-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs		-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	1	3	-	-	-	-	-	-	-
Civils	Underbridges	m ²	1,838	6	19	4,420	4	4,294	10	55	17,250	3
	Overbridges (incl BG3)	m ²	-	-	-	-	-	-	-	-	-	-
	Major Structures		-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	325	-	1	975	1	-	-	-	-	-
	Culverts	m ²	351	-	-	351	-	107	-	-	107	-
	Footbridges	m ²	140	-	1	185	5	60	-	1	60	17
	Coastal & Estuarial Defences	m	456	1	2	1,700	1	-	-	-	-	-
	Retaining Walls	m ²	-	-	-	-	-	-	-	-	-	-
	Structures Other		-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	227	5	9	419	21	204	6	16	419	38
	EW Drainage	m	1,656	-	-	3,310	-	1,233	-	-	4,853	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	12	32	-	-	-	16	72	-	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)		-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (MS)		-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	-	-	-	-	-	555	-	-	555	-
	Buildings (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Platforms (FS)	m ²	2,835	1	2	4,635	0	9,682	3	7	15,040	0
	Canopies (FS)	m ²	-	-	-	-	-	3,000	1	4	3,890	1
	Train sheds (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m ²	-	-	-	-	-	109	-	-	109	-
	Lifts & Escalators (FS)		-	-	-	-	-	-	-	-	-	-
	Other (FS)		-	-	-	-	-	23,550	1	2	23,550	0
	Light Maintenance Depots	m ²	-	-	-	-	-	13,700	1	8	26,200	0
	Depot Plant		-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	-	-	-	-	-	-	-	-	-	-
	MDU Buildings	m ²	550	-	-	550	-	-	-	-	-	-
	NDS Depot		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	1	2	-	-	-	6	21	-	-

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE	-	-	-	-	-	-	-	-	-	-	-
	OLE abandonments	-	-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	29	4	19	103	184	18	5	26	72	361
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC	-	-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC	-	-	-	-	-	-	-	-	-	-	-
	Other AC	-	-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	10	1	6	15	400	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	5	-	3	6	500
	LV cables DC	km	14	2	19	78	244	23	8	22	54	407
	Transformer Rectifiers DC	-	-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	22	-	2	64	31	34	1	2	50	40
	Other DC	-	-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency	-	-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity	-	-	-	-	-	-	-	-	-	-	-
	Other Electrical Power	-	-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
	Signalling Power Cables	km	8	1	1	14	71	6	1	1	6	167
	Signalling Supply Points	No.	-	-	-	-	-	-	-	-	-	-
	Other Fixed Plant	-	-	-	-	-	-	-	-	-	-	-
Total			-	8	47	-	-	-	15	54	-	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	-	-	-	-	-
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors	-	-	-	-	-	-	-	-	-	-	-
	PETS	No.	-	-	-	-	-	-	-	-	-	-
	HMI Small	-	-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio	-	-	-	-	-	-	-	-	-	-	-
	Power	-	-	-	-	-	-	-	-	-	-	-
	Other comms	-	-	-	-	-	-	-	-	-	-	-
	Network	No.	-	-	-	-	-	-	-	-	-	-
	Projects and Other	-	-	-	-	-	-	-	-	-	-	-
	Non Route capex	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-	-	-	-

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

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – In Conventional Plan Line Renewal there was an increase in the unit cost in 2017-18 compared to the prior year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. Plain Line Refurbishment has an increase for similar reasons as above. In Off Track there has been an increase in the unit cost but there are only a total of 3 projects across the two years so with a sample size so small variance analysis is meaningless.
- (3) Civils - There was a decrease in the unit rate of the Earthworks. The reason was that in the prior year there was very expensive one off emergency work project at Wrecchlesham that skewed the unit cost upwards. There was a decrease in the unit cost of Footbridges but there were only three projects across the two years so any analysis would be meaningless.

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

In £m 2017-18 prices unless stated

- (4) Electrical Power and Plant – In Signalling Power Cables the unit cost has decreased in the year. This is because there were more volumes delivered in the current year than were forecast in the prior year even though the final expenditure on the project has not increased. The unit cost for Conductor Rail has also decreased in the year. This is primarily due to the fact the volume of hook switches being delivered on a single project has more than doubled despite the fact there has been no cost increases.

Statement 1: Summary regulatory financial performance, Western

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Income							
Grant Income	443	448	(5)	1,749	1,742	7	441
Fixed Income	38	38	-	139	136	3	32
Variable Income	105	113	(8)	400	408	(8)	97
Other Single Till Income	190	183	7	501	618	(117)	108
Opex memorandum account	1	-	1	8	-	8	2
Total Income	777	782	(5)	2,797	2,904	(107)	680
Operating expenditure							
Network operations	46	36	(10)	174	141	(33)	46
Support costs	51	41	(10)	149	177	28	27
Traction electricity, industry costs and rates	45	47	2	140	143	3	34
Network maintenance	136	111	(25)	528	470	(58)	136
Schedule 4	22	24	2	101	89	(12)	21
Schedule 8	34	1	(33)	87	1	(86)	26
Total operating expenditure	334	260	(74)	1,179	1,021	(158)	290
Capital expenditure							
Renewals	282	312	30	1,215	1,278	63	284
PR13 enhancement expenditure	659	871	212	3,451	3,875	424	1,047
Non PR13 enhancement expenditure	71	-	(71)	170	-	(170)	47
Total capital expenditure	1,012	1,183	171	4,836	5,153	317	1,378
Other expenditure							
Financing costs	326	284	(42)	877	885	8	240
Corporation tax (received)/paid	-	-	-	(1)	-	1	-
Total other expenditure	326	284	(42)	876	885	9	240
Total expenditure	1,672	1,727	55	6,891	7,059	168	1,908

Statement 1: Summary regulatory financial performance, Western – continued

In £m 2017-18 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 in the other statements of this document.
- (2) Income - Grant income in the year was slightly lower than the determination due to variances between the inflation rate used to calculate grants payable by government and rates used to uplift the regulatory target. In earlier years of the control period there was a benefit from these differentials which also accounts for the favourable income in the control period to date. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was in line with the determination but favourable in the control period to date which is mostly due to differences between inflation rates used to calculate fixed income payable by operators and the rates used to uplift the regulatory target. This is set out in more detail in Statement 6a. Income is higher than the previous year which is mostly due to changes in the way the company is funded and is in line with the regulatory determination.
- (4) Income – Variable income in the year was lower than the determination mostly as a result of lower income from electricity provision to operators (offset by a corresponding saving in Operating expenditure) and lower Capacity charges as fewer trains ran. The control period to date variance is due to the same factors. Income is higher than the previous year mainly due to extra traction electricity income as more of the network in Western becomes electrified. 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 assumption mainly due to extra stations and depot income offsetting lower freight income. Income for the control period to date is lower than expected, mainly due to changes in the way certain capital programmes are funded, which is offset by a corresponding saving in financing costs. Income is higher than the previous year due to changes in the ways that projects are financed, which results in higher interest costs. These variances are 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 (June 2017). The income this year arises from extra Business rates costs offset by penalties on the volume incentive mechanism. The variances are set out in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination as a result of stations transferring into Network Rail's control along with difficulties achieving efficiency targets set in the PR13 and extra industry timetabling capabilities. Costs are higher in the control period to date for similar reasons. Costs are broadly in line with the previous year. Network Operations costs are discussed in more detail in Statement 7a.

Statement 1: Summary regulatory financial performance, Western – continued

In £m 2017-18 prices unless stated

- (8) Operating expenditure - Support costs are higher than the determination this year reflecting some additional accommodation and utilities costs. Savings made in the control period to date have resulted from efficiencies made across a number of functions and material items in Group. Support costs are higher than the previous year which, as noted in last year's Regulatory financial statements, benefited from an actuarial reassessment of insurance liabilities and a favourable commercial settlement. Support costs are discussed in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are broadly in line with the determination as lower electricity costs (offset by lower recoveries of these costs from operators through income) have been largely offset by higher Business rates. The variance in the control period to date is also due to these factors. Costs are higher than the previous year as a result of increased Business rates following a widely-publicised increase in business rates across the country and extra Traction electricity costs as more of the Western route becomes electrified as are discussed 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. Also, additional reactive maintenance activity and higher civils inspections costs have contributed to the extra costs. The variances in the control period to date are due to similar reasons, along with extra investment in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance. Costs are broadly in line with the previous year. Maintenance costs are discussed in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are broadly similar to the determination as higher average costs of possessions has been alleviated by deferral of renewals activity requiring network possessions. Costs for the control period to date include compensation payments in the wake of extreme weather events which have been partly offset by lower than expected renewals delivery. Costs this year are broadly in line with the previous year. Schedule 4 costs are discussed 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. Increased network traffic, infrastructure failures and some one-off incidents, notably the snow that Storm Emma brought, contribute to this position. Costs in the control period to date are higher than the regulator assumed as train performance targets have not been achieved. Performance penalties are higher than the previous year which includes the impact of ever-tightening benchmarks. Schedule 8 costs are discussed in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure for the year is lower than the determination expected which is due to net deferrals of activity partially offset by higher underlying costs (notably in Track, Signalling and Civils). Expenditure in the control period to date is lower than the determination, mainly for the same reasons. Renewals costs are discussed in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure this year is lower than the baseline and reflects the net position across a number of different programmes, but with a major contribution from GW Electrification. This programme is also the largest contributor to the variance in the control period to date. Investment is lower than the previous year reflecting the net changes in delivery across GW Electrification and Crossrail programmes. These variances are set out in more detail in Statement 3.

Statement 1: Summary regulatory financial performance, Western – continued

In £m 2017-18 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 so the higher investment in the current year and the control period to date is axiomatic. Expenditure is higher than the previous year following additional projects requested by DfT to improve the railway network. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year to debt-holders, included the DfT and accretion on index-linked debt instruments. Costs are higher than the determination due to higher levels of net debt than the regulator predicted as a result of additional capital investment. Costs in the control period to date are slightly lower mainly due to lower RPI rates than the determination assumed, limiting the costs Network Rail pays for its accreting debt instruments. Costs are higher than the previous year which is expected as debt increases to fund improvements to the railway infrastructure. This is augmented by higher RPI this year. Financing costs are set out in more detail in Statement 4.

Statement 2a: RAB - regulatory financial position, Western

In £m 2017-18 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2018

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	7,095	6,725	370
Indexation to 2016-17 prices	575	545	30
Opening RAB for the year (2016-17 prices)	7,670	7,270	400
Indexation for the year	298	282	16
Opening RAB (2017-18 prices)	7,968	7,552	416
Adjustments for the actual capital expenditure outturn in CP4	-	-	-
Renewals	238	312	(74)
PR13 enhancements	651	560	91
Non-PR13 enhancements	75	-	75
Total enhancements	726	560	166
Amortisation	(255)	(255)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2018	8,677	8,169	508

RAB Regulatory financial position - cumulative, Western

B) Calculation of the cumulative RAB at 31 March 2018

	2014-15	2015-16	2016-17	2017-18	CP5 Total
Opening RAB (2017-18 prices)	4,830	5,745	6,863	7,968	4,830
Adjustments for the actual capital expenditure outturn in CP4	137	-	-	-	137
Renewals	337	257	251	238	1,083
PR13 enhancements	641	1,076	1,049	651	3,417
Non-PR13 enhancements	34	19	50	75	178
Total enhancements	675	1,095	1,099	726	3,595
Amortisation	(234)	(234)	(245)	(255)	(968)
Adjustments for under-delivery of regulatory outputs	-	-	-	-	-
Closing RAB	5,745	6,863	7,968	8,677	8,677

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

In £m 2017-18 prices unless stated

Note:

- (1) The value of the RAB included in the Regulatory financial statements should always be considered provisional until the regulator makes its final assessment of renewals and enhancement efficiency 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 (June 2017) the RAB is inflated each year using the in year November RPI. The Opening RAB assumption in the table is reported in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent), the November 2014 RPI (1.98 per cent), the November 2015 RPI (1.05 per cent) and the November 2016 RPI (2.19 per cent) to derive the Opening RAB for the year in 2016/17 prices. This is then uplifted to 2017/18 prices using the November 2017 RPI of 3.88 per cent.
- (3) The opening RAB for the year is higher than the regulator anticipated in its' determination. This is mostly due to extra enhancements expenditure following the resetting of enhancement targets as part of the Hendy review 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 efficient overspends (the value of which cannot all be logged up to the RAB) as well as re-profiling activity to the final year of the control period and beyond. 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 is mainly due to the extra expenditure included in the baseline following the Hendy review which is reflected in Statement 3 but not in Statement 2a. Also, whilst there are variances in profiling across a number of programmes (as shown in more detail in Statement 3) there is a noticeable contribution from efficient overspends on certain programmes. Under the terms of the Regulatory Accounting Guidelines (June 2017), most of this expenditure is eligible for logging up to the RAB. Crossrail programme is the largest contributor.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process to establish 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 investment in such schemes 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. Amounts in the current year include extra work commissioned by DfT as discussed in more detail in Statement 3.

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

In £m 2017-18 prices unless stated

- (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. As this is a hypothetical figure established at the start of the control period and inflated using the in year November RPI, the actual value should always mirror the value in the PR13 assumption.
- (8) Adjustments for under-delivery of regulatory outputs – the ORR has signified their intent to 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) and missed milestones on the ORBIS programme, which is designed to improve the Network Rail's information of railway assets, the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2018 position.
- (9) Part B) of this statement shows the movement of the RAB during the control period. In line with the Regulatory Accounting Guidelines (June 2017) 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 (Input Output Price Index) 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 and 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 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Renewals					
Renewals per the PR13 determination	383	312	271	312	1,278
Adjustments to the PR13 determination					
Renewals / enhancement reallocation	-	-	-	-	-
Capitalised financing on reallocations	-	-	-	-	-
CP4 deferrals to CP5	23	-	-	-	23
Capitalised financing on CP4 deferrals	1	1	1	1	4
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Adjusted PR13 determination (renewals)	407	313	272	313	1,305
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(124)	(151)	(69)	(176)	(520)
Capitalised financing on acceleration / (deferrals) of expenditure	(3)	(8)	(15)	(20)	(46)
Adjustments for efficient overspend	68	128	72	146	414
Capitalised financing on efficient overspend	2	5	10	15	32
25% retention of efficient overspend	(17)	(32)	(18)	(36)	(103)
Capitalised financing on efficient overspend 25% retention	(1)	(1)	(3)	(4)	(9)
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	1	(1)	10
Capitalised financing on efficient overspend through spend to save framework	-	-	1	-	1
Retention of efficient overspend through spend to save framework	(1)	(1)	-	1	(1)
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Total Renewals (added to the RAB - see Statement 2a)	337	257	251	238	1,083
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	2	3	5	8	18
Adjustment for 25% retention of efficient overspend	18	33	20	35	106
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Other adjustments	-	1	8	1	10
Total actual renewals expenditure (see statement 9)	357	294	284	282	1,217

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

In £m 2017-18 prices unless stated

	Total as at 31/03/15	Total as at 31/03/16	Total as at 31/03/17	Total as at 31/03/18	CP5 Total
Enhancements					
Enhancements per the PR13 determination	805	869	796	560	3,030
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	-	265	383	311	959
Capitalised financing on Baseline adjustments	-	6	20	36	62
Adjustments to DfT funding	(166)	-	-	-	(166)
Capitalised financing on adjustments to DfT funding	(3)	(7)	(7)	(8)	(25)
Other adjustments	27	26	-	-	53
Capitalised financing on other adjustments	1	2	2	2	7
Adjusted PR13 determination (enhancements)	665	1,160	1,194	901	3,920
Adjustments in accordance with the PR13 RAB roll forward policy					
Adjustments for acceleration / (deferral) of expenditure within CP5	(36)	(115)	(145)	(314)	(610)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)	(4)	(10)	(20)	(35)
Adjustments for efficient overspend / (underspend)	17	(26)	3	5	(1)
Capitalised financing on efficient overspend / (underspend)	1	-	-	-	1
25% retention of efficient overspend / (underspend)	(5)	6	(1)	-	-
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	-	81	11	97	189
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-	(27)	(5)	(23)	(55)
Capitalised financing relating to projects with tailored protocols or fixed price	-	1	2	5	8
Adjustments for efficient overspend through spend to save framework	1	(1)	-	-	-
Capitalised financing on efficient overspend through spend to save framework	-	-	-	-	-
Retention of efficient overspend through spend to save framework	(1)	1	-	-	-
Capitalised financing on efficient overspend through spend to save framework retention	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Capitalised financing on other adjustments	-	-	-	-	-
Total PR13 enhancements (added to the RAB - see statement 2a)	641	1,076	1,049	651	3,417
Non PR13 Enhancements					
Non-PR13 enhancements expenditure qualifying for capitalised financing	44	6	47	71	168
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(11)	11	-	(2)	(2)
Capitalised financing on non-PR13 enhancements expenditure	1	2	3	6	12
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-	-	-	-	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-	-	-	-	-
Other adjustments	-	-	-	-	-
Adjustments for amortisation of non-PR13 enhancements	-	-	-	-	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	34	19	50	75	178
Total enhancements (added to the RAB - see statement 2a)	675	1,095	1,099	726	3,595
Adjustment for manifestly inefficient overspend	-	-	-	-	-
Adjustment for capitalised financing	1	-	(9)	(21)	(29)
Adjustment for 25% retention of efficient overspend	17	7	5	25	54
Other Adjustments	3	-	-	-	3
Adjustment for 25% retention of efficient underspend	-	-	-	-	-
Non-PR13 enhancement expenditure					
Third party funded schemes	230	28	46	139	443
Other adjustments	-	-	-	-	-
Total actual enhancement expenditure (see statement 3)	926	1,130	1,141	869	4,066

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

In £m 2017-18 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 (June 2017), adjustments for capitalised financing are made against each category of this statement. 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 adjustments 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 agreed a list of these projects at the start of this control period 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 delivering 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 to raise funds. This means that Network Rail's investment plans are limited by the amount of finance available from the DfT and consequently renewals activity across the control period is planned to be lower than the regulator assumed on a like-for-like basis. This year, this has resulted in deferral of activity until later in the control period and beyond, which, when combined with the re-profiling witnessed in the opening three years of the control period, 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 (June 2017), 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 June 2017) 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 with notable contributions from Track, Signalling and Civils projects. 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.

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

In £m 2017-18 prices unless stated

- (7) Renewals - Adjustments for efficient overspend through spend to save framework – for control period 5, the regulator 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 (June 2017) provides specific rules about the type of expenditure which qualifies for this category but it largely covers investment in IT, Plant & machinery and the commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only a certain amount of the expenditure 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 element not eligible for RAB addition during the control period). The value in this heading represents the full 100 per cent value of the additional expenditure. The reduction reported in the current year reflects decreased planned expenditure in this category across the whole control period compared to planned levels of investment included in Business Plans earlier in the control period.
- (8) Renewals - Retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating cost savings. The increase reported in the current year reflects the reduced expenditure on such schemes compared to earlier plans as noted above.
- (9) Renewals – Other adjustments – this relates to Research & Development expenditure that is not eligible for RAB addition and so is treated as inefficient overspend when assessing financial performance (refer to Statement 5) or determining how much expenditure can be added to the RAB.
- (10) 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 agreed a list of these projects at the start of the control period with specific values for which the PR13 allowance was adjusted in the first year of the control period. As part of the Hendy review undertaken in 2015/16 (refer to comments below) and the subsequent agreement of new baselines for assessing the enhancement expenditure eligible for RAB addition agreed with DfT and ORR, 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 first year of the control period were reversed in the second year of the control period.

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

In £m 2017-18 prices unless stated

- (11) 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 incoming 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. The "Hendy baseline" is then subject to any further alterations in outputs and costs agreed by Network Rail and DfT through a formal Change Control process. Note that the Hendy report did not cover all of Network Rail's enhancement portfolio, with notable exceptions being those programmes with their own protocol (such as Crossrail).
- (12) 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.
- (13) Enhancements – Other adjustments – the amounts in the opening two years of the control period 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.
- (14) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – this category refers to the differences between the profile of delivery assumed in the PR13 and works delivered (including adjustments arising from the aforementioned Hendy review and the Change Control procedure). The adjusted PR13 baseline included assumptions for the profile of how each enhancement would be delivered over the control period. However, these assumptions may not always be accurate, especially as some programmes have been re-profiled into CP6 and beyond.
- (15) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines (June 2017), 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 June 2017) 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, with notable contributions from Dr Days Junction and IEP Programme projects. Efficient overspend is classified as financial underperformance which is set out in more detail in Statement 5.
- (16) 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.
- (17) 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).

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

In £m 2017-18 prices unless stated

- (18) 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 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.
- (19) 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 (June 2017) 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 was reversed 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. No expenditure in this category occurred in the current year.
- (20) Enhancements – retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the amount of the capital investment that that Network Rail retains. This is, therefore, not eligible for logging up to the RAB. The element that Network Rail retains varies each year in line with the Regulatory Accounting Guidelines (June 2017) and decreases with each passing year of the control period to reflect the shorter timescale that exists between the initial investment being made and the years available to generate operating additional income.
- (21) 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.
- (22) Non-PR13 enhancements – Other adjustments (including discretionary investment) - These amounts are not eligible for RAB addition and so are reported as financial underperformance in Statement 5.

Statement 3: Analysis of enhancement capital expenditure, Western

In £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Funds						
East coast connectivity	-	-	-	-	-	-
Stations - National Station Improvement Programme (NSIP)	1	2	1	4	6	2
Stations - Access for All (AfA)	3	(3)	(6)	11	11	-
Development	1	(9)	(10)	13	14	1
Level crossing safety	1	3	2	9	14	5
Passenger journey improvement	-	-	-	1	-	(1)
The strategic rail freight network	7	13	6	27	45	18
Total funds	13	6	(7)	65	90	25
Committed projects						
Crossrail	183	182	(1)	1,374	1,375	1
GW Electrification (Paddington to Severn JT)	372	442	70	1,712	1,848	136
Adjustment for DfT funding - GW electrification	-	-	-	(79)	(79)	-
East West Rail (committed scheme)	5	6	1	47	19	(28)
IEP Programme	70	67	(3)	148	134	(14)
Bridgend to Swansea electrification	-	3	3	3	7	4
Reading station area redevelopment	(18)	-	18	112	169	57
Adjustment for DfT funding - Reading station area redevelopment	-	-	-	(88)	(88)	-
Total committed projects	612	700	88	3,229	3,385	156
Named schemes						
The Electric Spine:						
DfT SoFA amount	-	-	-	-	-	-
Total Electric Spine projects	-	-	-	-	-	-
Thames Valley:						
Acton to Willesden electrification (WCML)	-	-	-	1	3	2
Thames Valley branches	2	(7)	(9)	4	2	(2)
Oxford Station area capacity and station enlargement	26	44	18	50	81	31
Total Thames Valley projects	28	37	9	55	86	31
Airports & Ports:						
Western access to London Heathrow Airport	-	-	-	7	8	1
Total airports & Ports	-	-	-	7	8	1
West						
Dr Days to Filton Abbey Wood capacity improvements	30	44	14	60	76	16
Bristol Temple Meads passenger capacity (incl. Digby Wyatt Shed)	-	6	6	2	9	7
Total West	30	50	20	62	85	23
HLOS capacity metric schemes						
West of England DMU capability works	14	14	-	17	16	(1)
Route gauge Clearance for different EMUs	7	25	18	18	41	23
Total HLOS capacity metric schemes	21	39	18	35	57	22
CP4 Project Rollovers						
Westerleigh Junction - Barnt Green linespeed increase	-	3	3	-	6	6
Station Security	-	-	-	-	-	-
Other CP4 Rollover	1	-	(1)	1	-	(1)
Total CP4 rollovers	1	3	2	1	6	5

Statement 3: Analysis of enhancement capital expenditure, Western - continued

In £m 2017-18 prices unless stated

	2017-18			Cumulative		
	Actual	Baseline	Difference	Actual	Baseline	Difference
Other projects						
Seven day railway projects	-	-	-	-	-	-
ERTMS Cab fitment	1	(11)	(12)	10	33	23
R&D allowance	-	-	-	2	2	-
Depots and stabling	23	43	20	37	100	63
Income generating property schemes	1	4	3	19	23	4
Other income generating investment framework schemes	-	-	-	-	-	-
Adjustment for DFT Funding - Other	(71)	-	71	(71)	-	71
Total other projects	(46)	36	82	(3)	158	161
Re-profiled expenditure due to programme deferral	-	-	-	-	-	-
Total PR13 funded enhancements (see statement 2b)	659	871	212	3,451	3,875	424
B) Investments not included in PR13						
Government sponsored schemes						
Swindon Kemble Redoubling	-	-	-	25	-	(25)
DNOs clearance work	-	-	-	18	-	(18)
W001cReadingIndFeeder	29	-	(29)	53	-	(53)
Crossrail	9	-	(9)	9	-	(9)
Other government sponsored schemes	31	-	(31)	58	-	(58)
Total Government sponsored schemes	69	-	(69)	163	-	(163)
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	-	-	-	1	-	(1)
Discretionary Investment	2	-	(2)	3	-	(3)
Total non PR13 enhancement expenditure	71	-	(71)	170	-	(170)
Total Network Rail funded enhancements (see Statement 1)	730	871	141	3,621	3,875	254
Third Party PAYG	139	-	(139)	441	-	(441)
Total enhancements (see statement 2b)	869	871	2	4,062	3,875	(187)

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

In £m 2017-18 prices unless stated

Notes:

- (1) In line with the Regulatory Accounting Guidelines (June 2017), the PR13 baselines have been restated to reflect the outcome of the Hendy review and subsequent adjustments agreed with DfT through the Change Control process. During 2015, the Secretary of State commissioned Network Rail's incoming 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 terms of the Hendy review made provision for DfT and Network Rail to agree changes to the baseline funding target, through the Change Control process. This allowed funding to change to reflect agreed adjustments to the scope of each enhancement programme or to allow baselines to be set at the appropriate point in a project life cycle where high level assumptions over the cost of a programme made at the time of the Hendy report could be updated to reflect better information available on programme costs.

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 which were included as outputs in 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 logged up to 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 by Network Rail.
- (4) Enhancement expenditure in the year paid for by Network Rail was £730m (as shown in Statement 1). This comprises the total enhancement figure in the table above (£869m) less the PAYGO schemes funded by third parties (£139m).
- (5) Investment expenditure this year was lower than the previous year which included delivery of key parts of the Crossrail and GW Electrification programmes.
- (6) 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 review) 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. Overall, expenditure in this category this year was higher than the baseline, mainly due to DfT changes to the funding available for projects. Noteworthy variances between expenditure in the year and the baseline are set out below:

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

In £m 2017-18 prices unless stated

- a. 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. Investment this year was higher than the baseline. The baseline was adjusted by DfT this year which brings the control period to date expenditure in line with the target. This year included delivery of important projects at Burnham and Totnes stations.
 - b. Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Expenditure in the current year is higher than the baseline due to changes DfT have made to the funding allowance. This brings the control period to date investment in step with the target.
 - c. Level Crossing Safety – The aim of this fund is to reduce the risks of accidents at level crossings. Expenditure this year was in lower than the Henday baseline continuing the pattern from earlier years of the control period. Slower delivery has been caused by fewer suitable schemes being identified and designed this control period.
 - d. 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. Once more, investment is lower than the baseline, meaning the control period to date position is lower than the Hendy expectation. There are no plans for this shortfall to be rectified by the end of the control period.
- (7) PR13 funded schemes – Committed Projects - overall expenditure for the year and the control period to date in this category is lower the baseline. Although this is the net position across a number of projects, the dominant variance arises on the GW electrification (Paddington to Cardiff) programme. The 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 in line with the regulator's determination in the year and control period to date. However, this is due to higher underlying costs and negative financial performance (reported in Statement 5a) offset by deferrals into the final year of the control period. 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 is a major and complex project that seeks to extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure is lower than the baseline this year, which has also caused the majority of the underspend in the control period to date. The savings in the control period to date are largely due to slower progress on the programme. This has been caused by a variety of factors, including workings around endangered species and listed buildings, delivery of more electricity masts than planned, rising subcontractor costs necessitating re-designing works to something more cost-effective and difficulty acquiring long enough possession windows to deliver the scope. These delays have led to updates to the agreed dates of milestone delivery.
 - 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.

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

In £m 2017-18 prices unless stated

- d. East West Rail - the objective of this project is to support economic growth along the line of the route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is in step with the baseline this year, but higher in the control period to date. The project is split into two phases, elements of the second phase planning and design have been accelerated so the programme can dovetail with construction of HS2. Higher costs for the control period to date are also partly caused by increased total project costs which has resulted in financial underperformance being recognised (refer to Statement 5a).
 - e. 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 in the year is in line with the baseline but higher for the control period to date. Most of this variance is due to cost increases in the programme which has resulted in financial underperformance being recognised this year (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. The credit balance in the current year relates to favourable settlement of commercial disputes. There is still expected to be some costs in the final year of CP5, but overall control period costs are expected to be lower than the Hendy baseline. The delay in overall delivery has been mostly due to remediation of a spoil heap and improve Cow Lane highway as part of the scope of works. The control period to date also benefits from financial performance (refer to Statement 5c) as tight fiscal control has allowed for a reduction in project contingencies and a decrease in the total anticipated costs of the project.
 - 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.
- (8) PR13 funded schemes – named schemes - expenditure in the year is less than the baseline with the largest contributions from Dr Days to Filton Abbey Wood and Oxford Station Area capacity projects. The control period to date variance is driven by the same programmes. 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 the baseline there has been minimal activity so far this 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. Expenditure for the control period to date is largely in line with the Hendy target.

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

In £m 2017-18 prices unless stated

- c. Oxford Station Area Capacity and Station Enlargement – this project improves line speed and station capacity along the Oxford Corridor. Expenditure is lower than the baseline in the current year and control period to date which reflects delays in contract award (as value engineering options are assessed) and restricted network access to undertake works. Whilst investment is expected to ramp up in the final year of the control period parts of the programme have been deferred until CP6 to fit in with the timescales for other projects in the area, thus minimising passenger disruption and maximising delivery efficiencies.
 - 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 lower in the current year than the baseline, which accounts for the majority of the control period to date variance. This has been caused by a combination of underlying cost increases and so recognition of financial underperformance (refer to Statement 5a) offset by deferral of activity to dovetail with other programmes being delivered in the area.
 - f. Bristol Temple Meads Passenger Capacity – This project consists of the provision of additional capacity, access and circulation at Bristol Temple Meads station. Expenditure in the control period to date has been minimal and is not expected to be caught up in the remainder of the control period as parts of this programme have been postponed until CP6.
- (9) PR13 funded schemes – HLOS capacity metric schemes - expenditure in the year is less than the baseline mainly due to variances on the Route gauge programme. This programme is also driving the control period to date position. The following notable variances between expenditure and baselines are set out below:
- a. West of England DMU capability works – this project aims to develop solutions for infrastructure capability enhancements to enable the operation of cascaded DMUs from the Thames Valley on the West Country routes. Expenditure for the year and the control period to date is in line with the Hendy baseline.
 - b. Route gauge Clearance for different EMUs – the purpose of this project is to provide infrastructure capability enhancements to enable the operation of new rolling stock in the Thames Valley area. Expenditure is lower than the baseline this year which expected the majority of the programme to be delivered in 2017/18. This has been reprofiled and is expected now to be delivered in 2018/19.
- (10) Other projects – this heading captures various sundry enhancement projects. Overall, expenditure is lower than the baseline due to the receipt of a capital grant from DfT, an element of which was allocated to each operational route, which reduces the overall level of PR13 enhancements that can be logged up to the RAB. Excluding the impact of this, expenditure is still lower than the ORR assumed mainly due to slower utilisation of the Depots & Stabling fund. Notable variances to the baseline include:

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

In £m 2017-18 prices unless stated

- a. 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 this year is ahead of the baseline this year but behind for the control period to date. Some of the CP5 budget has been repurposed by DfT through the change control process, resulting in the credit budget in the current year. Elements of the programme have been deferred into CP6 to allow more time to better understand the requirements and the technological options available to deliver the required outputs and how it connects to the Digital Railway strategy.
 - 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 in the year is much lower than the baseline, continuing the trend from earlier years of the control period. Utilisation of this fund requires appropriate schemes to be identified by operators and approved by DfT.
 - c. Other income generating investment framework schemes – Network Rail has not undertaken any schemes in the control period to date which meets this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry and the funds to complete such projects. As part of the Hendy review, the scarce funds available were diverted onto those programmes that were considered to deliver better strategic outputs for the industry. As a result, funding available for this category was minimised.
 - d. Adjustment for DfT funding – Other – during 2017/18, DfT provided Network Rail with a contribution towards its enhancement programme in England & Wales, an element of which was allocated to each of the operational routes. For transparency, this is shown as a reduction against the PR13 projects with a corresponding increase included in Third Party PAYGO category. This reduces the amount of enhancement expenditure Network Rail can log up to the RAB by (refer to Statement 2a).
- (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 2a) or recognised as financial performance (refer to Statement 5c) 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 – notable programmes in this category in the current year include Reading independent feeder (Bramley), a project which contributes to the electrification of the Great Western Main Line (GWML) which facilitates the introduction of electric train operation delivering significant journey time improvements on key intercity routes and high seating capacity trains on suburban services contributing to the delivery of the HLOS capacity metric for London Paddington. In addition, there was also investment in projects to improve Cornwall capacity.

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

In £m 2017-18 prices unless stated

- b. Network Rail Spend to save – the main project in the previous years of CP5 was Project Mountfield which related to the acquisition of freight sites and paths. Following Network Rail's reclassification to be a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014, the ability to borrow from parties external to DfT has been removed. As a result of the cash constrained position Network Rail now face, there has been minimal investment in this category of enhancements this control period.
- c. Discretionary investment – expenditure this year relates to various programmes that Western contributed to this year to improve the railway network in the route. As these projects were not funded through the determination or subsequent Hendy review, they resulted in financial underperformance being recognised (refer to Statement 5c).
- d. 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. In addition DfT made a contribution to the enhancement portfolio in England & Wales this year, an element of which was allocated to each operational route, reducing the amount that is added to the RAB in the above categories and increasing expenditure in this area. Investment this year was also made on Old Oak Common works (to facilitate HS2), Cornwall capacity and links to Heathrow.

Statement 4: Net debt and financial ratios, Western

In £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2018

(£m, nominal prices)	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Opening net debt	6,109	5,571	(538)	3,030	2,961	(69)
Income						
Grant income	(443)	(448)	(5)	(1,679)	(1,673)	6
Fixed charges	(38)	(38)	-	(134)	(132)	2
Variable charges	(105)	(113)	(8)	(384)	(390)	(6)
Other single till income	(190)	(183)	7	(482)	(592)	(110)
Total income	(776)	(782)	(6)	(2,679)	(2,787)	(108)
Expenditure						
Network operations	46	36	(10)	170	134	(36)
Support costs	51	41	(10)	145	168	23
Traction electricity, industry costs and rates	45	47	2	133	132	(1)
Network maintenance	136	111	(25)	505	450	(55)
Schedule 4	22	24	2	97	85	(12)
Schedule 8	34	1	(33)	85	4	(81)
Renewals	282	312	30	1,165	1,225	60
PR13 enhancement	659	560	(99)	3,306	2,892	(414)
Non-PR13 enhancement	71	-	(71)	164	-	(164)
Total expenditure	1,346	1,132	(214)	5,770	5,090	(680)
Financing						
Interest expenditure on nominal debt - FIM covered	50	96	46	191	292	101
Interest expenditure on index linked debt - FIM covered	34	38	4	116	126	10
Expenditure on the FIM	39	62	23	151	201	50
Interest expenditure on government borrowing	110	-	(110)	203	-	(203)
Interest on cash balances held by Network Rail	(1)	(4)	(3)	(4)	(9)	(5)
Total interest costs	232	192	(40)	657	610	(47)
Accretion on index linked debt - FIM covered	95	92	(3)	200	275	75
Total financing costs	327	284	(43)	857	885	28
Corporation tax	-	-	-	(1)	-	1
Other	239	-	(239)	268	57	(211)
Movement in net debt	1,136	634	(502)	4,215	3,245	(970)
Closing net debt	7,245	6,205	(1,040)	7,245	6,206	(1,039)

D) Financial indicators

	2014-15	2015-16	2016-17	2017-18	2017-18 PR13
Adjusted interest cover ratio (AICR)	1.12	1.17	0.82	0.80	1.38
FFO/interest	2.95	2.94	2.65	1.90	2.70
Net debt/RAB (gearing)	71.8%	75.4%	79.6%	83.5%	76.0%
FFO/debt	9.1%	7.7%	6.2%	6.1%	8.4%
RCF/debt	6.1%	5.0%	3.3%	2.9%	5.3%
Average interest costs by category of debt					
Average interest costs on nominal debt - FIM covered	3.4%	2.9%	4.4%	5.0%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%	1.3%	1.3%	1.4%
FIM fee in %	1.1%	1.1%	1.1%	1.1%	1.1%
Average interest costs on government debt	2.9%	2.7%	2.4%	3.4%	n/a

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

In £m nominal unless otherwise stated

Note:

- (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 June 2017.

Comments:

- (1) Network Rail does not issue debt for each of its operating routes. Instead, treasury operations are managed for Western as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to Western has increased by £1.1bn 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.
- (3) Net debt attributable to Western at 31 March 2018 is £0.5bn 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, higher net operating costs and movements in working capital have driven increases in debt.
- (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 other 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 as a result of the Hendy review, Change Control or the additional outputs that Network Rail have delivered this control period (disclosed under the Non-PR13 enhancement heading).

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

In £m nominal unless otherwise stated

(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 made 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 higher than the regulator assumed this year. This is largely due to high levels of average debt during the year. The favourable position in the control period to date is mainly due to lower than expected inflation rates earlier in the control period which has reduced Network Rail's accretion interest expenses and offset the higher levels of average net debt in CP5.

- a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market during the first three years of the control period). The same financing factors have been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs this year are lower than the previous year as the proportion of this type of debt continues to fall.
- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed largely due to lower than assumed levels of this type of debt as, following reclassification of Network Rail to a Central Government Body, no new issuances of this type are permitted this control period. The lower proportion of this type of debt has been the major contributor to the favourable control period to date position and this trend is expected to continue in the final year of the control period. Costs are marginally higher than the previous year which, ceteris paribus, is expected as the interest expense on index-linked debt in the previous year is added to the principle for future years and there are no scheduled repayments of this type of debt in the current control period. Additionally, RPI this year has been higher than the previous year, thus increasing the interest expense recognised in 2017/18.
- 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, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year and for the control period to date are lower than the regulator planned as Network Rail is now borrowing money directly from government rather than through market issuances (as discussed above). The rate Network Rail pays to borrow from the government under the CP5 loan agreement (refer to Section D) includes a margin to compensate DfT for the lost income it would have otherwise received in CP5 under the FIM arrangements. Expenditure is lower than the previous year reflecting the lower levels of debt covered by the FIM arrangements compared to the previous year.

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

In £m nominal unless otherwise stated

- 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 the company incurs interest costs in this category. The ORR assumed that Network Rail would borrow from the market and not from government and so there is no comparative PR13 figure. The control period to date variance is expected to increase in the final year of the control period as debt issuances in 2018/19 (including refinancing of maturing nominal debt) are expected to be from DfT. Costs are higher than the previous year reflecting additional levels of DfT issued debt in the current year as Network Rail borrows to fund its investment in the railway network. In addition, rates are slightly higher (as shown in Section D)) reflecting higher market rates this year compared to 2016/17.
 - e. Financing costs – Interest on cash balances held by Network Rail – income from these sources is lower than the regulator assumed in both the current year and the control period to date. This is mainly due to tight fiscal planning meaning that Network Rail holds, on average, less liquid resources than the regulator assumed. As interest rates receivable on short term deposits are generally much lower than the interest rates payable on borrowings, minimising this "cost of carry" is desirable. In addition, low market interest rates arising from the macro economic conditions also reduces the income that Network Rail could earn on these short term deposits.
 - f. Financing costs – accretion on index linked debt – FIM covered – costs are higher than those assumed by the regulator for the current year. This was due to lower than expected volumes of this type of debt caused by Network Rail's reclassification as a government body (as noted above) more than offset by higher inflation rates this year than the regulator assumed. In the control period to date the lower costs are a combination of lower amounts of this type of debt and lower inflation rates than the regulator expected in the determination. 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 grow with RPI. Therefore, the savings experienced here has been offset to some extent by lower inflationary increases to the RAB. Costs are higher than the previous year which reflects the higher inflation rates experienced in the current year.
- (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 increase in debt this year is mainly as a result of repayment of funding made available during the course of construction on enhancement projects.

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

In £m nominal unless otherwise stated

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

Ratio	Description
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 June 2017. ****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 an assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2017/18 shows, the regulator expected Network Rail to be able to cover its interest costs through its trading profits (including an assumption for steady state renewals). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Maintenance costs as well as higher interest costs (largely arising from extra net debt). This ratio has improved slightly compared to the previous year mostly due to higher other single till income this year.

(17) Financial indicators – FFO/ interest – this ratio is similar to the AICR metric discussed above with the main difference being that it excludes the assumption for steady state renewals. As the assumption for steady state renewals is the same in both the actual result and the PR13 target the impact of removing this factor is similar (although not proportional). The reasons for the variance compared to the determination and the difference to the previous year are, therefore, the same as the reasons outlined in the AICR comment above.

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

In £m nominal unless otherwise stated

- (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 2017/18 is higher than the regulatory comparative which is mainly due to higher overall capital spend, efficient capital overspend and higher net operational costs partly offset by interest savings. Higher overall capital spend is a consequence of Network Rail undertaking extra investment over and above that included in the PR13, including non-PR13 enhancements, agreed projects rolled forward from CP4 and extra activity outlined in the Hendy review (as discussed in Statement 2a) and subsequent Change Control agreements. 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 absolute amount will result in a higher ratio. Efficient capital overspends result in a higher ratio as, under the rules set out in the Regulatory Accounting Guidelines (June 2017), efficient expenditure is logged up to the RAB at 75 per cent but the corresponding debt would increase by 100 per cent. The extra net operational costs experienced this control period are outlined in more detail elsewhere in these Regulatory financial statements. These factors are partly offset by lower interest costs (as noted above). The ratio is higher than the previous year which, given the nature of Network Rail's business is to be expected.
- (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 adverse variance to the regulator's assumption is due to higher operating costs than planned, notably 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 but also due to higher net operational costs throughout the control period to date and higher capital expenditure as a result of undertaking extra work on the network unforeseen at the time of the determination (such as non-PR13 enhancements, amounts in the Hendy review and agreed projects rolled over from CP4) and adverse movements in working capital. The ratio this year is in line with the previous year, as extra other single till income has helped offset the increased debt.
- (20) Financial indicators – RCF/ debt – this ratio is similar to the above FFO/ debt calculation. The main difference is that it excludes interest from the calculation of the amount of surplus generated by Network Rail. Therefore, the variances to the determination and the prior year are a result of the same factors noted in the above comment.

Statement 5a: Total financial performance, Western

In £m 2017-18 prices unless stated

2017-18								
	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 $H = G \text{ or } H = G \times 25\%$
	A	B	C	D	E	F		
Income								
Grant Income	443	448	(5)	(5)	-	-	-	-
Fixed Income	38	38	-	-	-	-	-	-
Variable Income	94	99	(5)	-	-	-	(5)	(5)
Other Single Till Income	190	183	7	(2)	-	-	9	9
Opex memorandum account	1	-	1	4	-	-	(3)	(3)
Total Income	766	768	(2)	(3)	-	-	1	1
Expenditure								
Network operations	46	36	(10)	-	-	-	(10)	(10)
Support costs	51	41	(10)	1	-	-	(11)	(11)
Industry costs and rates	33	30	(3)	(4)	-	-	1	1
Traction electricity	1	3	2	-	-	-	2	2
Reporter's fees	-	-	-	-	-	-	-	-
Network maintenance	136	111	(25)	-	(6)	-	(19)	(19)
Schedule 4 costs	22	24	2	-	13	-	(11)	(11)
Schedule 8 costs	34	1	(33)	-	-	-	(33)	(33)
Renewals	282	312	30	-	177	-	(147)	(37)
PR13 Enhancements	659	871	212	-	314	-	(102)	(23)
Non PR13 Enhancements	71	-	(71)	-	(69)	-	(2)	(2)
Financing Costs	326	284	(42)	(42)	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	-	-	-	-	-	-	-	-
Total Expenditure	1,661	1,713	52	(45)	429	-	(332)	(143)
Total:			50	(48)	429	-	(331)	(142)
Total financial out / (under) performance before adjusting for under-delivery of outputs and adjustments for other matters								(142)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(17)
Under-delivery of train performance requirements (CaSL)								(5)
Missed milestones for asset management - data quality								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								-
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(22)
Total financial out / (under) performance to be recognised								(164)

Statement 5a: Total financial performance, Western - continued

In £m 2017-18 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	$G = C - D - E - F$	$H = G \text{ or } H = G \times 25\%$
Income								
Grant Income	1,749	1,742	7	7	-	-	-	-
Fixed Income	139	136	3	3	-	-	-	-
Variable Income	389	393	(4)	-	-	-	(4)	(4)
Other Single Till Income	501	618	(117)	(150)	-	-	33	33
Opex memorandum account	8	-	8	7	-	-	1	1
Total Income	2,786	2,889	(103)	(133)	-	-	30	30
Expenditure								
Network operations	174	141	(33)	-	-	-	(33)	(33)
Support costs	149	177	28	27	-	-	1	1
Industry costs and rates	121	115	(6)	(8)	-	-	2	2
Traction electricity	7	12	5	-	-	-	5	5
Reporter's fees	1	1	-	-	-	-	-	-
Network maintenance	528	470	(58)	-	(23)	-	(35)	(35)
Schedule 4 costs	101	89	(12)	-	20	-	(32)	(32)
Schedule 8 costs	87	1	(86)	-	-	-	(86)	(86)
Renewals	1,215	1,278	63	8	468	-	(413)	(103)
PR13 Enhancements	3,451	3,875	424	-	611	-	(187)	(52)
Non PR13 Enhancements	170	-	(170)	-	(168)	-	(2)	(2)
Financing Costs	877	885	8	8	-	-	-	-
Compensation	-	-	-	-	-	-	-	-
Corporation tax	(1)	-	1	-	1	-	-	-
Total Expenditure	6,880	7,044	164	35	909	-	(780)	(335)
Total:			61	(98)	909	-	(750)	(305)
Total financial out / (under) performance before adjusting for under-delivery of outputs and other adjustments								(305)
Less adjustments for under-delivery of outputs and reduced sustainability								
Under-delivery of train performance requirements (PPM)								(40)
Under-delivery of train performance requirements (CaSL)								(11)
Missed milestones for asset management - data quality								-
Missed milestones for Offering Rail Better Information Services (ORBIS)								(4)
Missed Enhancement milestones								-
Total adjustment for under-delivery outputs								(55)
Total financial out / (under) performance to be recognised								(360)

Statement 5a: Total financial performance, Western - continued

In £m 2017-18 prices unless stated

Breakdown of variance not included in total financial performance - Variable income:	2017-18			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustments for external traction electricity	(11)	(14)	3	(11)	(15)	4
Total variance not included in total financial performance:	(11)	(14)	3	(11)	(15)	4
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Crossrail finance charge	83	85	(2)	93	243	(150)
Total variance not included in total financial performance:	83	85	(2)	93	243	(150)
Breakdown of variance not included in total financial performance - Support costs:						
Crossrail financing contract receipt	-	-	-	22	-	22
Spend to save adjustment	1	-	1	2	-	2
Release of CP4 long distance financial penalty provision	-	-	-	3	-	3
Total variance not included in total financial performance:	1	-	1	27	-	27
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction electricity	11	14	(3)	11	15	(4)
Total variance not included in total financial performance:	11	14	(3)	11	15	(4)
Breakdown of variance not included in total financial performance - Renewals:						
Investment of CP4 long distance financial penalty	-	-	-	8	-	8
Total variance not included in total financial performance:	-	-	-	8	-	8

Statement 5a: Total financial performance, Western – continued

In £m 2017-18 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. In CP4 Network Rail used two methods to assess performance, being the Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM supersedes these and 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 derived but retains discretion on the final value.
- (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 June 2017) 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 assess 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 due to re-phasing activity and so 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 arithmetic variance between the PR13 assumptions and actual values, which are included in the Variance column 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 in both the current year and the control period to date are due to differences in inflation assumptions (this is explained 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 in the year and the control period to date 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. The remaining variance relates to additional income Network Rail has been able to generate through extra franchise income. Under the FPM guidelines agreed with ORR no financial outperformance is recorded for this.

Statement 5a: Total financial performance, Western – continued

In £m 2017-18 prices unless stated

- (3) Variable income – in 2017/18 and the control period to date, Network Rail has underperformed mostly as a result of lower capacity charges compared to the regulatory assumption as growth has been unable to keep up with increases in regulatory targets. 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. Variable income is set out in more detail in Statement 6a.
- (4) Other single till income – this year, financial outperformance has been reported which is mainly due to extra services provided to operators at stations and depots. Some of the variances to the regulator's determination have been classified as neutral when calculating FPM. The PR13 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 this programme. However, this assumption did not fully materialise. 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 in the control period to date is mainly due to extra station and depot income generated through provision of additional services along with higher property rental income than the regulatory target. Other single till income is set out in more detail in Statement 6a.
- (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 and in the control period to date. Slow freight growth owing structural changes in the industry and reduced passenger numbers and revenue compared to the regulatory assumption have resulted in financial underperformance being recognised this year. Underperformance in the current year negates most of the outperformance earned in earlier years of the control period. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations costs in 2017/18 are higher than the regulator assumed. The main reason for the increase is due to the transfer of responsibility for stations (Reading and Bristol). Whilst this results in supplementary income (refer to Statement 6a) and operational advantages, there are additional costs associated with the move. In addition, planned efficiencies arising from the Network Operation Strategy (NOS) have not materialised this control period. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above.

Statement 5a: Total financial performance, Western – continued

In £m 2017-18 prices unless stated

- (7) Support costs – costs are higher than the determination in the current year, eroding the savings made in earlier years of the control period. Support costs are discussed in more detail in Statement 7. 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 earlier years of the control period 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 partial release of the provision. As Network Rail is re-investing this difference in the railway (where it is being reported as renewals) the release was not counted as financial outperformance. Similarly, as 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. This is shown in the adjustment to renewals variance in column D. In addition, receipts from restructuring contracts with Crossrail are outside the scope of FPM, as noted in the previous year's Regulatory Financial Statements.
- (8) Industry costs and rates – the marginal FPM in the year (and for the control period to date) is caused by lower British Transport Police costs compared to the assumption in the determination. British Transport Police costs are allocated to different industry parties using a number of assumptions (such as location of incidents, footfall at stations etc.)
- (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 the vast majority of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the organisation. There is a favourable variance to the determination target this year which is partly due to the favourable settlement of prior year activity. The control period to date position reflects similar factors to those noted above.

Statement 5a: Total financial performance, Western – continued

In £m 2017-18 prices unless stated

- (10) Network maintenance – The financial underperformance this year represents a continuation of the trend witnessed in the opening years of the control period when efficiency targets set by the regulator were not fully realised. The determination assumed that a number of savings would be made through initiatives such as better targeting of activity (through initiatives such as ORBIS (Offering Rail Better Information Services)), multi-skilling of employees and organisational restructuring. Whilst some of these have delivered savings the returns have been more modest than the plans initially anticipated. Also, reduced renewals volumes delivered this control period have necessitated more maintenance work to uphold asset performance and safety. Devolution has allowed more informed asset management decisions to be made with trade-offs between maintenance and renewals being made where appropriate. Extra work has been delivered to improve performance as local management teams have targeted areas of the network considered at risk. Also, headwinds such as new pension legislation, legal changes to overtime remuneration and staff pay awards in excess of RPI (to mitigate disruptive industrial action) have contributed to a higher cost base. Financial underperformance in the control period to date also includes the impact of initiatives to remove vegetation near the railway and to tidy the lineside areas undertaken earlier in the control period. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which was recognised in Support costs financial outperformance in 2014/15. Maintenance costs are set out in more detail in Statement 8a. The variances in the volume of work (column E) refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM is recognised on Reactive maintenance either Maintenance or Renewals. Some activities are classified as either Maintenance or Renewals depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals.
- (11) Schedule 4 costs – costs are broadly in line with the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions offset by higher average possession costs. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance and hence an adjustment is made in the Variance in volume of work done column (column E). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are higher than the regulatory assumption despite a deferral of renewals works requiring possessions.

Statement 5a: Total financial performance, Western – continued

In £m 2017-18 prices unless stated

- (12) Schedule 8 costs – costs are greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included a derailment at Paddington station as well as storm damage in June 2017. Costs this year were also affected by the new rolling stock introduced to the network as part of the IEP programme. There have been some integration issues with these new trains which have caused damage to infrastructure (notably overhead lines) and so performance issues.
- (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 (either positive or negative) being recognised. Financial underperformance has been reported for the current year and the control period to date. This has been due to a combination of factors including: exiting the previous control period with higher costs than the PR13 assumed (notably track, civils and CP4 rollover projects), higher supplier costs (evidenced by rapid increases in the Tender Price Index), targeting of the most appropriate work (rather than a work bank which delivers lower unit rate), reduced possession availabilities (when the determination assumed greater access to the infrastructure) and extra costs from implementing safety standards. Renewals financial performance is calculated at an asset category level and set out in more detail in Statement 5b. The amount included in the Variance not included in total financial performance (column D) relates to investment Network Rail delivered in lieu of a financial penalty levied by ORR for missed train performance outputs in CP4. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail. This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).
- (14) 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 and changes arising from agreed revisions to the programme baseline. There are set processes for agreeing changes to the programme baselines, including the Change Control procedure undertaken with DfT to agree changes to programmes scope and expected costs. Enhancement financial performance is calculated for each enhancement programme with Crossrail dominating the current year and the control period to date. Individual programme variances are 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). This accounts for the difference between the values in the Final variance column (column G) and the Financial out/ (under) performance column (column H).

Statement 5a: Total financial performance, Western – continued

In £m 2017-18 prices unless stated

- (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. The financial underperformance recognised this year is due to a number of small discretionary projects which aim to improve the network in Western but for which no funding was provided through the Hendy review or subsequent change control.
- (16) Financing costs – financing costs are higher than the regulator expected mainly due to higher levels of net debt during the year compared to the assumption included in the regulator's PR13. This is set out in more detail in Statement 4. However, variances in financing costs are outside of the scope of FPM. This is because Network Rail has minimal ability to influence these types of costs and instead it is the prevailing market conditions which drives the underlying variances to the determination. Following the reclassification of Network Rail to be a Central Government Body it can only borrow directly from DfT. Again, this further reduces Network Rail's ability to control financing costs as the interest rates payable on each tranche of loan drawdown are determined by the contractual arrangement between Network Rail and DfT arising from Network Rail's reclassification.
- (17) Corporation tax – no income tax payments have been made this year, although the control period to date position is favourable. Given the uncertainty of when income taxes are payable and the immaterial value, the favourable arithmetic variance in the control period has been treated as neutral at this time. This treatment will be reviewed at the end of the control period when a full picture is available.

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. No payment is made for any missed regulatory output; it is merely a mechanism for ORR to assess Network Rail's overall performance in the year and in the control period.
- (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 2017/18, continuing the trend of the earlier years 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 2017/18, continuing the trend of earlier years 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 5a: Total financial performance, Western – continued

In £m 2017-18 prices unless stated

- (4) Asset management – there are targets around the delivery of the ORBIS (Offering Rail Better Information Services) programme. This programme has nine defined milestones and for each one Network Rail missed there is a financial performance adjustment equating to one-ninth of the expected costs of the total programme. In 2016/17, Network Rail missed two milestones on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements of the programme.

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

In £m 2017-18 prices unless stated

2017-18								
	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	29	81	(52)	(13)		(13)	-	-
Signalling	(49)	3	(52)	(13)		(13)	-	-
Civils	13	45	(32)	(8)		(7)	(1)	-
Buildings	8	12	(4)	(1)		-	(1)	-
Electrical power and fixed plant	2	6	(4)	(1)		(1)	-	-
Telecoms	1	1	-	-		-	-	-
Wheeled plant and machinery	5	5	-	-		-	-	-
IT	1	1	-	-		-	-	-
Property	2	2	-	-		-	-	-
Other renewals	18	21	(3)	(1)		(1)	-	-
Total	30	177	(147)	(37)		(35)	(2)	-

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	30	166	(136)	(34)		(34)	-	-
Signalling	43	199	(156)	(39)		(39)	-	-
Civils	(9)	75	(84)	(21)		(19)	(2)	-
Buildings	23	27	(4)	(1)		-	(1)	-
Electrical power and fixed plant	24	32	(8)	(2)		(2)	-	-
Telecoms	4	8	(4)	(1)		-	(1)	-
Wheeled plant and machinery	23	23	-	-		-	-	-
IT	(9)	(9)	-	-		-	-	-
Property	1	1	-	-		-	-	-
Other renewals	(67)	(46)	(21)	(5)		(3)	(2)	-
Total	63	476	(413)	(103)		(97)	(6)	-

Where: $C = A - B$
 $D = C \times 25\%$
 $D = E + F + G$

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

In £m 2017-18 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 June 2017) in which case 100 per cent of the overspend is included in the assessment of financial performance.
- (3) Column B, Deferral/ (acceleration) of work also includes an amount relating to expenditure outside of the scope of FPM as set out in Statement 5a.

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, continuing the trend from the previous years on the control period. The PR13 determination was based upon high level assumptions of unit costs and the efficiencies that could be achieved. Whilst using modelled unit rates might be appropriate in certain industries (such as manufacturing standard products) it does not translate as well for railway engineering projects where each job is different. Network Rail has prioritised doing the correct work, rather than delivering a workbank that generates lower unit rates allowing local management teams to identify and prioritise activity that generates the best safety, performance and asset management outcomes for the money available. In addition, contractor prices have increased significantly since Network Rail submitted its Strategic business plan for the control period. This is observable by the increases in the Tender price index since the Strategic business plan was set, which has accelerated at more than 2000 basis points more than RPI. Limited access to the network to undertake renewals has increased the costs of delivery. Also, as volumes and activity has been lower than the CP5 plan, anticipated economies of scale have been lost. Network Rail exited CP4 with higher unit rates than the determination assumed (notably for Track, Civils and CP4 rollover items) making achieving the cost targets for the current control period virtually impossible. As the regulator's efficiency targets get progressively harder as the control period continues financial underperformance is also expected in the final year of the control period.

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

In £m 2017-18 prices unless stated

- (2) Track – there has been notable financial underperformance in the current year. Approximately one-third of this was expected in the Network Rail's 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 opening years 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 across all categories, but with a notable contribution from High output, where plant failures have become a recurring theme. Reduction in the total level of High Output delivered works also has an adverse impact as there are a number of fixed costs that are still payable regardless of the level of volumes undertaken which contributed to the financial underperformance this year. Also, better placed interventions can lead to overall cost reductions but higher unit costs for individual projects. The CP5 plan assumed that track efficiencies could be delivered through longer, more productive possessions reducing average unit rates. In fact, acquiring possessions has become harder this control period as extra passenger demand for train services is being met through running more trains earlier in the morning and later at night. Additionally, the record level of enhancements being delivered this control period has meant that the enhancement delivery is being prioritised in the available possessions (notably for Great Western electrification and Crossrail which are of significant strategic benefit). Network Rail has also made a conscious effort to minimise passenger disruption this control period. This has included a deliberate policy of including contingency in possessions to make sure that engineering jobs do not overrun. However, this policy necessitates shorter windows and extra contingent resource. Project costs have also been increased by extra safety compliance expenditure.
- (3) Signalling – financial underperformance has been reported this year mainly as a result of not being able to achieve the regulator's efficiency targets. The plans for CP5 included generating savings through scope reductions, better access and better contractor negotiations. However, scope reductions have not been possible as many of the CP5 major schemes were already significantly advanced at the start of CP5, providing limited opportunity to reduce scope. Possessions have become harder to get this control period (as outlined in the Track comments above) whilst contractor costs have increased due to an overheated supply chain, weighted towards a single supplier. The signalling portfolio in CP5 is the most ambitious Network Rail has undertaken as it looks to improve reliability and train performance but the specialist nature of the contractors (along with wider demand in the economy) has restricted availability with a corresponding adverse impact on costs. Funding constraints faced by the company, along with higher like-for-like costs has necessitated a deferral of activity. This has resulted in increased minor works to maintain asset performance and safety but as this does not represent the optimal whole life cost cycle from an asset management perspective this generates financial underperformance. The determination also assumed more simple jobs. In reality, many of the schemes delivered have been more complex, driving up costs, as routes have sought to deliver robust long-term assets rather than target delivery of activity that generates the cheapest unit cost. Signalling financial performance has adversely affected by cost increases on certain large resignalling schemes, including additional scope and cost Swindon, Oxford 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 has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability.

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

In £m 2017-18 prices unless stated

- (4) Civils – financial underperformance has been reported for this category this year, continuing the trend from earlier in the control period. Financial performance has been impacted by not achieving the efficiencies the regulator assumed could be made this control period. Network Rail exited CP4 with higher unit costs for most types of Civils activity which made achieving the PR13 expenditure targets improbable to begin with. The efficiency plans for the control period included improved procurement strategies, better asset information (leading to scope reductions), improving possession effectiveness and multi-skilling personnel. Instead, contractor prices have increased rapidly this control period, fuelled by increases in the market rates observed through the Tender Price Index. Reductions in workbanks in the face of higher like-for-like costs and general cash constraints have exacerbated the situation as long-term planning and earlier contractor involvement has not been possible against the backdrop of this uncertainty. As noted in the above comments, acquiring possessions has become more difficult, negating potential benefits gained from longer possession windows. Improved asset information has resulted in a requirement for additional works in order to bring assets to required standards. Whilst most of this extra activity is being treated as neutral when assessing financial performance, the expected savings that improved asset information was supposed to deliver are being lost. Finally, extra costs have been incurred as a result of weather events damaging the network.
- (5) Other – this is made up of a number of different categories including the following:
- a. Attributable support: the determination included an assumption for level of overheads that central programme delivery functions would incur. To improve transparency and accuracy, Network Rail has developed a method of charging these costs directly to individual projects. Therefore, costs are higher across the other renewals categories but with a corresponding saving in the Other heading which have generated some outperformance this year.
 - b. ORBIS: overall increases in programme costs, largely driven by programme elongation on the CSAMS (Civil Strategic Asset Management Solution) and GEOGIS (Geographic and Infrastructure Systems) elements, have resulted in financial underperformance being recognised this year.
 - c. Research & Development: earlier in the control period, research & development activities were funded through Enhancements (refer to Statement 3). However, due to funding constraints the activities required to build capacity for CP6 and beyond is now funded through renewals.
 - d. CP4 rollover: 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. The underperformance recognised in the control period to date includes notable contributions from Paddington roof and FTN.

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

In £m 2017-18 prices unless stated

2017-18

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Reading station area redevelopment	18	(1)	-	19	4
Crossrail	(1)	96	-	(97)	(23)
East West Rail (committed scheme)	1	2	-	(1)	-
IEP Programme	(3)	7	-	(10)	(2)
Dr Days Jcn to Filton Abbey Wood Capacity	14	27	-	(13)	(3)
Other Enhancements	112	114	-	(2)	(1)
Total	141	245	-	(104)	(25)

Cumulative

	Variance to PR13	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Reading station area redevelopment	57	27	-	30	6
Crossrail	1	190	-	(189)	(53)
East West Rail (committed scheme)	(28)	(23)	-	(5)	(1)
IEP Programme	(14)	(4)	-	(10)	(2)
Dr Days Jcn to Filton Abbey Wood Capacity	16	29	-	(13)	(3)
Other Enhancements	222	224	-	(2)	(1)
Total	254	443	-	(189)	(54)

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

In £m 2017-18 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 and so 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 their 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 incoming 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 Crossrail). Programme baselines are also subject to alteration following a Change Control process which involves Network Rail and DfT agreeing to changes in outputs and funding.
- (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 different circumstances.
- (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) 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. Successful close out of projects in this programme in the current year have enabled a further reduction in programme costs, augmenting the financial outperformance reported in earlier years of the control period.

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

In £m 2017-18 prices unless stated

- (2) 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 and unforeseen energy interoperability rules compliance costs for the installation of West Outer Overhead Line Equipment. In addition, higher contractor costs have been caused by design updates and changes in access strategy (with primacy granted to Great Western Electrification programme). Efficiency challenges in the original plans have not been achieved putting further pressure on funding. The strategic importance for the overall railway network of completing this programme to agreed timescales places extra strain on efficient delivery. 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.
- (3) IEP programme – the total expected costs for the programme are lower than the Hendy baseline which has resulted in recognition of financial outperformance. Savings this year have arisen from: simplifying layout at Newcastle which has reduced the complexity and so cost of the works, substituting contractor delivery with underutilised local works delivery team for certain parts of the programme, lower tender prices than expected on electrification boosters and implementing alternative platform designs compared to the original plan.
- (4) Dr Days Junction to Filton Abbey Wood capacity – expected total programme costs have increased this year resulting in the recognition of financial underperformance in the current year and control period to date. This has included late increases to contractor costs, slower on-site delivery and increased design complexity which has necessitated additional possessions to be incorporated into the plan, signalling data transmission issues and resources being redirected towards the more strategically important Crossrail programme.
- (5) 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. In addition, minor financial performance variances are captured through this heading.

Statement 5d: Total financial performance - REBS performance, Western

In £m 2017-18 prices unless stated

	A	B	C	D	E	F	G
	Actual	REBS Baseline	Variance to REBS Baseline	Cumulative to 2017-18 Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	104	106	(2)	-	-	-	(2)
Capacity charge	205	211	(6)	-	-	-	(6)
Electricity asset utilisation charge	-	1	(1)	-	-	-	(1)
Property income	114	98	16	-	-	-	16
Expenditure	-	-	-	-	-	-	-
Network operations	174	135	(39)	-	-	-	(39)
Support costs	149	177	28	-	3	-	25
RSSB and BT Police	38	40	2	-	-	-	2
Network maintenance	528	463	(65)	(34)	-	-	(31)
Schedule 4 costs	101	108	7	39	-	-	(32)
Schedule 8 costs	87	-	(87)	-	-	-	(87)
Renewals	1,215	1,201	(14)	399	-	(310)	(103)
Total REBS performance			(161)	404	3	(310)	(258)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(40)
Under-delivery of train performance requirements (CaSL)							(11)
Missed milestones for asset management - data quality							-
Missed ORBIS milestones							(4)
Total adjustment for under delivery of outputs and reduced sustainability							(55)
Cumulative performance to end of 2017-18							(313)
Less cumulative outperformance recognised up to the end of 2016-17							(124)
Net REBS performance for 2017-18							(189)

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

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

In £m 2017-18 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Grant income	443	448	(5)	1,749	1,742	7	441
Franchised track access income							
Fixed charges	38	38	-	139	136	3	32
Variable charges							
Variable usage charge	20	21	(1)	83	82	1	21
Traction electricity charges	11	14	(3)	11	15	(4)	-
Electrification asset usage charge	-	1	(1)	-	1	(1)	-
Capacity charge	50	53	(3)	205	208	(3)	52
Station usage charge	-	-	-	-	-	-	-
Schedule 4 net income	24	24	-	101	102	(1)	24
Schedule 8 net income	-	-	-	-	-	-	-
Total Variable charges income	105	113	(8)	400	408	(8)	97
Total franchised track access income	143	151	(8)	539	544	(5)	129
Total franchised track access and grant income	586	599	(13)	2,288	2,286	2	570
Other single till income							
Property income	33	31	2	119	111	8	28
Freight income	5	7	(2)	21	28	(7)	5
Open access income	13	13	-	48	51	(3)	12
Stations income	28	25	3	112	97	15	27
Facility and financing charges	98	99	(1)	161	299	(138)	27
Depots Income	12	7	5	37	30	7	8
Other income	1	1	-	3	2	1	1
Total other single till income	190	183	7	501	618	(117)	108
Total income	776	782	(6)	2,789	2,904	(115)	678

Statement 6a: Analysis of income, Western – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 performance regime are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 performance regime 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) Overall, income is lower than the regulator expected this year mainly as a result of lower Traction electricity income charged to operators (which is governed by prevailing market prices and largely offset by lower costs Network Rail pays to purchase electricity), lower government grants (arising from lower inflation) and lower freight income (as a result of structural declines in the coal transportation market). These shortfalls have been partly offset by extra income earned from offering additional services to operators). Income for the control period to date is lower than the regulatory target due to lower traction electricity income and freight revenue (for the reasons noted above) as well as lower income received from Crossrail financing arrangements (offset by interest cost savings made by Network Rail). Income is higher than the previous year mainly due to additional income received under Crossrail financing agreements.

Statement 6a: Analysis of income, Western – continued

In £m 2017-18 prices unless stated

- (3) Grant income - grant income in the current year is lower than the determination assumed. The determination values are inflated using the November RPI for the each year (as specified by the guidance set out by the regulator in the Regulatory Accounting Guidelines June 2017). However, the inflation rates used to calculate the actual grant payments made by Department for Transport are lagged by a year in line with the Deed of Grant arrangements. The below table illustrates this, with the determination allowances for 2017/18 being uplifted by 12.29 per cent but the actual revenue Network Rail receives from government increasing by only per cent:

	Price uplift to apply (%)				
	2013/14	2014/15	2015/16	2016/17	2017/18
PR13 comparison – in year	2.65%	1.98%	1.05%	2.19%	3.88%
PR13 comparison – cumulative	2.65%	4.68%	5.78%	8.10%	12.29%
Deed of Grant (actuals) – in year	2.65%	2.65%	1.98%	1.05%	2.19%
Deed of Grant (actuals) – cumulative	2.65%	5.37%	7.46%	8.58%	10.96%

As this variance is a result of timing differences in inflation indices Network Rail does not include the loss (or benefit) of this in its assessment of financial performance (refer to Statement 5). Revenue for the control period to date is higher than the regulator assumed due to the inflation differences set out in the above table.

- (4) Fixed charges – fixed charge income was in line with the determination this year. Fixed charges for the control period to date are higher than the regulator expected due to the inflationary benefits described above in the comment on Grant income. Fixed charges are higher than last year but this is in step with expectation in the determination on how the route is funded.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over the amount of income earned in this year. Revenue 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). As the network in Western has only just been electrified the variance in the current year is driving the control period to date position and explains why the income is higher than the previous year.
- (6) Property income – this is favourable in the current year and the control period to date due to additional rental income earned compared to the regulatory assumption.
- (7) Freight Income – this is below the regulator's determination this year due to a much lower demand for coal in the wider economy as many coal-fired power stations are closed or are reducing output. This follows changes in legislation introduced from April 2015 which made coal-fired power stations less economically viable. Consequently the coal transportation market has declined dramatically with activity decreasing. Furthermore, declining demand for UK steel haulage and tightened security around the Channel Tunnel have contributed to the lower than expected performance. Overall, the tonnage of materials moved by freight has decreased since the last year of CP4. The structural changes facing the freight market over the past four years has driven the adverse performance to the regulator's assumption for the lower control period to date.

Statement 6a: Analysis of income, Western – continued

In £m 2017-18 prices unless stated

- (8) Stations income – revenue earned this year is higher than the regulator expected. This is mainly due to a transfer of Reading and Bristol stations from franchised to managed earlier in the control period, meaning Network Rail assumes responsibility for running these stations directly rather than the franchise operator which generates more income, but also results in additional operating costs (as noted in Statement 7a). In the control period to date, station income has been higher than the regulator anticipated due to the aforementioned transfer of Bristol and Reading stations. Income is in step with the prior year.
- (9) Facility and financing charges – income in this category is in line with the determination this year but is lower in the control period to date mostly due to lower Crossrail finance income. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide income to Network Rail to mitigate the borrowing costs incurred as a result of delivering the infrastructure. However, this assumption did not come to pass. Instead, Crossrail provided a loan directly to Network Rail meaning that Network Rail did not have to borrow the funds from third parties 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. As noted in the previous year's Regulatory financial statements, in 2016/17 Network Rail repaid some of loan owing to Crossrail Limited meaning it was able to charge Crossrail Limited some of the financing costs. This year, further amounts were repaid resulting in additional income earned in this category compared to the previous year.
- (10) Depots income revenue is higher than the regulator's assumptions in both the current year and the control period to date mainly due to extra facilities offered to train operators. This includes extra amounts receivable from operators facilitate the new Intercity Express Programme, which explains the increase in income compared to the previous year.

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

In £m 2017-18 prices unless stated

	2017-18			Cumulative			2016-17
	Actual	PR13	Difference	Actual	PR13	Difference	Actual
Property Income							
Property rental	29	30	(1)	107	107	-	25
Property sales	4	3	1	12	13	(1)	3
Adjustment for commercial opex	-	(2)	2	-	(9)	9	-
Total property income	33	31	2	119	111	8	28
Freight income							
Freight variable usage charge	5	6	(1)	21	23	(2)	5
Freight traction electricity charges	-	-	-	-	-	-	-
Freight electrification asset usage charge	-	-	-	-	-	-	-
Freight capacity charge	-	-	-	-	2	(2)	-
Freight only line charge	-	-	-	-	1	(1)	-
Freight specific charge	-	1	(1)	-	1	(1)	-
Freight other income	-	-	-	-	-	-	-
Freight coal spillage charge	-	-	-	-	1	(1)	-
Total freight income	5	7	(2)	21	28	(7)	5
Open access income							
Variable usage charge income	-	-	-	-	1	(1)	-
Open access capacity charge	-	1	(1)	-	1	(1)	-
Open access traction electricity charges	4	3	1	10	12	(2)	2
Fixed contractual contribution	9	9	-	38	37	1	10
Open access other income	-	-	-	-	-	-	-
Total open access income	13	13	-	48	51	(3)	12
Stations income							
Managed stations income							
Long term charge	5	4	1	21	14	7	5
Qualifying expenditure	10	3	7	40	13	27	10
Total managed stations income	15	7	8	61	27	34	15
Franchised stations income							
Long term charge	9	11	(2)	37	43	(6)	9
Stations lease income	4	7	(3)	14	27	(13)	3
Total franchised stations income	13	18	(5)	51	70	(19)	12
Total stations income	28	25	3	112	97	15	27
Facility and financing charges							
Facility charges	15	14	1	68	56	12	16
Crossrail finance charge	83	85	(2)	93	243	(150)	11
Welsh Valleys finance charge	-	-	-	-	-	-	-
Total facility and financing charges	98	99	(1)	161	299	(138)	27
Depots income	12	7	5	37	30	7	8
Other	1	1	-	3	2	1	1
Total other single till income	190	183	7	501	618	(117)	108

Statement 6b: Analysis of other single till income (unaudited), Western – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) 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 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Network operations							
Signaller expenditure							
Signallers and level crossing keepers	20	19	(1)	77	75	(2)	18
Signalling shift managers	-	1	1	(1)	5	6	1
Local operations managers	1	1	-	3	5	2	1
Controllers	6	3	(3)	25	10	(15)	6
Electrical control room operators	1	1	-	3	4	1	2
Total signaller expenditure	28	25	(3)	107	99	(8)	28
Non-signaller expenditure							
Mobile operations managers	3	3	-	10	10	-	3
Managed stations	10	3	(7)	40	13	(27)	11
Performance	1	1	-	5	5	-	2
Customer relationship executives	1	1	-	3	2	(1)	1
Route enhancement managers	-	-	-	-	-	-	-
Weather	-	2	2	-	6	6	-
Other	6	1	(5)	23	4	(19)	6
Operations delivery	-	-	-	-	-	-	-
HQ - Operations services	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-
HQ - Other	-	2	2	1	9	8	(1)
Other operating income	(3)	(2)	1	(15)	(7)	8	(4)
Total non-signaller expenditure	18	11	(7)	67	42	(25)	18
Total network operations expenditure	46	36	(10)	174	141	(33)	46
Support costs							
Core support costs							
Human resources	2	5	3	10	20	10	2
Information management	6	5	(1)	25	23	(2)	6
Government and corporate affairs	1	2	1	4	7	3	-
Group strategy	1	1	-	2	5	3	-
Finance	2	2	-	9	9	-	2
Business services	2	2	-	6	6	-	3
Accommodation	8	5	(3)	29	21	(8)	6
Utilities	10	5	(5)	26	22	(4)	7
Insurance	5	6	1	19	25	6	(1)
Legal and inquiry	1	-	(1)	4	2	(2)	1
Safety and sustainable development	2	1	(1)	8	3	(5)	2
Strategic sourcing	1	1	-	4	3	(1)	1
Business change	-	-	-	-	1	1	-
Other corporate functions	8	-	(8)	26	1	(25)	5
Core support costs	49	35	(14)	172	148	(24)	34
Other support costs							
Asset management services	3	5	2	11	20	9	3
Network Rail telecoms	3	2	(1)	14	11	(3)	3
National delivery service	-	-	-	-	1	1	-
Infrastructure Projects	(2)	-	2	(10)	-	10	(2)
Commercial property	-	-	-	(3)	(1)	2	(1)
Group costs	(2)	(1)	1	(35)	(2)	33	(10)
Total other support costs	2	6	4	(23)	29	52	(7)
Total support costs	51	41	(10)	149	177	28	27
Traction electricity, industry costs and rates							
Traction electricity	12	17	5	18	27	9	3
Business rates	23	18	(5)	74	67	(7)	18
British transport police costs	8	9	1	34	37	3	10
RSSB costs	1	1	-	4	3	(1)	-
ORR licence fee and railway safety levy	1	2	1	8	7	(1)	2
Reporters fees	-	-	-	1	1	-	-
Other industry costs	-	-	-	1	1	-	1
Total traction electricity, industry costs and rates	45	47	2	140	143	3	34
Total network operations expenditure, support costs, traction electricity, industry costs and rates	142	124	(18)	463	461	(2)	107

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

In £m 2017-18 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 and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4). This statement focuses on Network Operations, Support costs and Traction electricity, industry costs and rates. Maintenance costs are addressed in Statement 8a.
- (2) Total Network operations expenditure, support costs, traction electricity, industry costs and rates are higher than the determination assumed this year. This is due to higher signaller costs as savings assumed in the PR13 have not been realised and extra stations are being managed and higher accommodation and utilities costs.
- (3) 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.
- (4) Network operations costs in 2017/18 are higher than the regulator assumed. The main reason for the increase is due to the transfer of responsibility for stations (Reading and Bristol). Whilst this results in supplementary income (refer to Statement 6a) and operational advantages, there are additional costs associated with the move. In addition, planned efficiencies arising from the Network Operation Strategy (NOS) have not materialised this control period. Extra money has been spent to alleviate some of these problems. Increased passenger demand has also prompted Network Rail to introduce new capacity planning initiatives, notably Industry Access Planning (IAP) and Timetable Rules Improvement Programme (TRIP). Whilst these initiatives provide benefits to the industry as a whole there was no funding available for these programmes in the determination. Costs for the control period to date are higher than the determination, mainly due to the factors outlined above. Network operations costs are consistent with the previous year.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the core business. Support costs are higher than the determination this year, mainly due to higher accommodation and utilities costs. Costs are higher than the previous year which benefitted from non-recurring benefits from actuarial valuations of insurance liabilities and a favourable commercial settlement.
- (6) Human Resources - costs are markedly 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 much of this devolution had occurred earlier in the control period the cumulative impact of savings throughout the control period is noticeable. Costs this year are in line with the previous year as many of the aforementioned transfers of responsibilities were in place for 2016/17.

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

In £m 2017-18 prices unless stated

- (7) Accommodation – these property expenses were higher than the determination, continuing the trend of the control period to date. This is mainly due to Network Rail utilising a more expensive property portfolio than the regulator assumed when it set the determination. The PR13 supposed that accommodation costs would be much lower than the CP4 exit position by 2017/18.
- (8) Utilities – costs are higher than the determination this year which has caused the variance in the control period to date. The costs faced by Network Rail are largely market driven and so variances mostly arise from macroeconomic factors. In addition, as part of the reorganisation of the workplace management team undertaken this year, costs are now more accurately charged to specific locations within Network Rail.
- (9) Insurance - costs are favourable to the determination in the control period to date. Following well-publicised weather events in 2012/13 and 2013/14 such as the landslide at Dawlish, insurers were unwilling to provide comparable levels of insurance cover for the cost allowances the regulator included in its determination. Many of these extreme weather events occurred after the determination had been set. Consequently, Network Rail has decided to alter its insurance strategy, including reducing the level of cover which, ceteris paribus, manifests itself in increased Schedule 4 and Schedule 8 costs (see Statement 10). In addition, further increases in market rates and increases in insurance premium taxes as well as reclassification of Network Rail as a Central Government Body has strengthened the business case for a policy of greater self-insurance. As noted in the prior year Regulatory Financial Statements, the control period to date position also benefits from the results of an actuarial revaluation undertaken in 2016/17 of the liabilities that Network Rail is exposed to under older insurance policies. This non-recurring benefit last year also explains the majority of the apparent increase in costs this year.
- (10) Safety and sustainable development - costs are higher than the determination in the control period to date due to enhanced focus on safety. In the determination some of these activities were included in the Asset Management category. The extra investment this control period includes delivery of 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. Costs are in line with the previous year.
- (11) Other corporate functions – costs are noticeably higher than the determination assumed this year and in the control period to date. The Other corporate functions category mainly consists 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 support costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management Services or the determination did not expect the same level of organisational requirement. This control period, Network Rail has been committed to devolving responsibility and accountability away from central functions to the routes where appropriate in order to allow decisions to be made closer to the passenger. As a result there are savings across a number of central functions, such as Finance, Human resources and Asset management services as the work is now delivered locally.

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

In £m 2017-18 prices unless stated

- (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 lower than the previous year mostly due to reductions in the costs of supporting the Digital Railway initiative as more of the work in this area is now focused on delivery of capital projects and so the costs are included in capex.
- (13) Infrastructure Projects – in line with International Accounting Standards and the Regulatory Accounting Guidelines (June 2017), 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.
- (14) 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 mainly due to lower performance related payments to staff and re-organisation costs in the current year than the regulator expected. Savings were made in reorganisation costs mainly as a result of a transfer of some costs to the Other corporate functions category but also due to fewer structural changes made than expected. As part of the pay award negotiations with the trade unions additional assurances were provided 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. Costs for the control period to date are significantly favourable to the regulator's expectation. This included the impact of a lower than expected financial penalty imposed by the regulator in 2014/15 (which was treated as neutral when assessing financial performance in Statement 5), reductions in long-term incentives for senior management (with the savings reinvested in the railway infrastructure), lower re-organisation costs and some favourable non-recurring commercial settlements. Greater detail of these items is included in Statement 7b. The credit recognised in Group this year is lower than the previous year which benefited from a non-recurring commercial settlement.
- (15) 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 charges, which are either set by other government agencies (Business rates, British Transport Police, ORR licence fees) or by market prices (Traction electricity). In the current control period ORR has changed the nomenclature to emphasise that it expects Network Rail to make savings across its entire cost base. This category of costs is broadly in line with the regulator's assumption in the current year and control period to date as lower traction electricity costs have been largely offset by higher Business rates. Costs are higher than the previous year due to increases in Business rates following the government resetting of these taxes, as widely reported in the media and increases in the scope of electrified assets in the Western route.

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

In £m 2017-18 prices unless stated

- (16) 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 lower than the regulator assumed as market prices have been lower than expected over the past two years. Costs are higher than the previous year as more parts of the Western network become electrified.
- (17) Business rates – these are set by the Valuation Office Agency, an executive agency of HMRC and so Network Rail has limited ability to influence these charges. The current charges are based on the latest 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 through the Opex memorandum account mechanism (refer to Statement 10). Costs are higher than the previous year because, as noted in the previous year's Regulatory financial statements, Business rates were recently been reset following the completion of the latest review by the Valuation Office Agency. As a result, Network Rail expects costs to exceed the regulatory assumption for the final year of the control period too.

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

In £m 2017-18 prices unless stated

	2013-14	2014-15	2015-16	2016-17	2017-18
Network operations					
Operations and customer services signalling	14	17	20	20	21
MOMS	2	2	3	3	3
Control	2	6	7	6	6
Planning & Performance Staff Costs	2	3	5	6	7
Managed Stations Staff Costs	1	2	3	-	2
Operations Management Staff Costs	1	2	1	3	2
Other	7	8	6	8	5
Total operations & customer services costs	29	40	45	46	46
Total Network Operations	29	40	45	46	46
Support					
Human resources					
Functional support	3	-	1	1	2
Training (inc Westwood)	2	1	1	-	-
Graduates	-	-	-	-	-
Apprenticeships	1	1	1	-	-
Other	-	1	-	1	-
Total human resources	6	3	3	2	2
Information management					
Support	1	1	-	1	1
Projects	-	-	-	-	-
Licences	-	-	-	-	-
Business operations	5	5	6	5	5
Other	-	-	-	-	-
Total information management	6	6	6	6	6
Finance	2	2	2	2	2
Business Change	-	-	-	-	-
Contracts & Procurement	1	-	-	-	-
Strategic Sourcing (National Supply Chain)	-	1	1	1	1
Planning & development	1	1	-	-	1
Safety & compliance	1	-	-	-	-
Other corporate services	5	3	1	2	6
Commercial property	9	7	6	5	8
Infrastructure Projects	(6)	(2)	(4)	(2)	(2)
Route Services	1	2	4	2	(1)
Central Route Services (inc NSC)	-	-	-	-	-
Asset management & Engineering/Asset heads	14	-	-	-	-
National delivery service	-	-	-	-	-
Private party	-	-	-	-	-
Utilities	-	4	5	7	10
Network Rail Telecoms	-	4	4	3	3
Digital Railway	-	1	3	2	1
Safety Technical & Engineering	-	5	3	3	4
Government & Corporate Affairs	-	1	1	-	1
Business Services	-	2	1	3	2
Route Asset Management	-	2	2	1	3
Legal and inquiry	-	1	1	1	1
Group/central					
Pensions	-	-	-	-	-
Insurance	3	7	9	(1)	5
Redundancy/reorganisation costs	6	1	1	1	1
Staff incentives/Bonus Reduction	-	(2)	(1)	-	(1)
Accommodation & Support Recharges	-	(2)	(3)	(2)	(3)
Commercial claims settlements	1	-	(14)	(9)	-
ORR financial penalty	9	(3)	-	-	-
Other	-	-	(1)	-	1
Total group/central costs	19	1	(9)	(11)	3
Total support	59	44	30	27	51
Total network operations and support costs	88	84	75	73	97

Statement 7b: Analysis of network operations expenditure and support costs by activity (unaudited), Western – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	49	39	(10)	177	164	(13)	45
Signalling	22	15	(7)	83	61	(22)	21
Civils	18	13	(5)	79	57	(22)	22
Buildings	10	7	(3)	31	26	(5)	9
Electrical power and fixed plant	10	18	8	23	76	53	4
Telecoms	4	2	(2)	10	9	(1)	2
Other network operations	23	12	(11)	118	51	(67)	31
Asset management services	3	3	-	14	14	-	4
National Delivery Service	(1)	4	5	(4)	18	22	(1)
Property	-	-	-	5	1	(4)	1
Group	(2)	(2)	-	(8)	(7)	1	(2)
Total maintenance expenditure	136	111	(25)	528	470	(58)	136

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

In £m 2017-18 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 previous years of the control period when efficiency targets set by the regulator were not fully realised. In addition, reactive maintenance works and civils inspection costs this year have been higher than the regulator assumed. Costs for the control period to date are higher than the PR13 for similar reasons, along with management decisions to invest in programmes to tidy up the line-side areas of the network and to reduce the adverse impact vegetation has on performance (funded by reductions in performance-related pay to senior staff, refer to Statement 7a). Costs are broadly in line with the previous year, reflecting reduced reactive maintenance, offset by higher asset inspection costs. A slight increase is expected as the network assets increase and more traffic is present. In addition, there were some extra costs this year as a result of higher overtime costs following a legally binding Employment Tribunal ruling affecting all organisations in the UK.
- (2) Track – track maintenance costs are the largest component of Network Rail's maintenance costs. This year, costs are higher than the determination due to a number of factors including a difference in the treatment of National Delivery Services costs which, as noted in the previous year's Regulatory financial statements, are borne by the beneficiary of these services resulting in higher track maintenance costs compared to the determination (but with a saving in the National Delivery Services category). In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension costs and overtime have also increased costs. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others that proved too optimistic in their conception, including the savings assumed to be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Finally, the devolution of decision-making to local route management teams has incentivised undertaking interventions to improve local performance and minimise passenger delays which impose greater Maintenance expenses. The reasons outlined above also account for the higher costs in the control period to date. Costs in the year are broadly in line with 2016/17 with some extra expenses resulting from legal changes affecting overtime.

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

In £m 2017-18 prices unless stated

- (3) Signalling – as with the previous year, costs are higher than the determination. One of the contributing factors has been the delay in implementing renewals programmes. This control period the level of renewals delivered has been lower than the plan which has been partly caused by the funding constraints facing Network Rail following the Office for National Statistics decision to reclassify the organisation as a Central Government Body. As a result of reduced renewals investment, additional maintenance costs are required to maintain asset safety and performance capability, even though this approach might not represent the optimal whole life asset cost solution. Also, Network Rail has increased the level of maintenance to try to reduce the number and impact of signalling failures and so improve train performance, thus reducing passenger delays and Schedule 8 costs. In addition, pay awards in excess of inflation granted to front line workers earlier in the control period and changes in government legislation affecting pension and overtime costs have also increased the cost base. The determination assumed that certain efficiencies would be able to be made this control period and whilst some plans have been successfully enacted others provide too optimistic in their assumption, including the savings that would be delivered through the ORBIS (Offering Rail Better Information Services) programme, risk-based maintenance and mechanisation initiatives. Costs in the control period to date are higher than the regulatory assumptions for the reasons outlined above. Maintenance costs in this area are broadly in line with the previous year, with some increases reflecting legal changes to overtime and further deferrals of renewals programmes requiring extra asset maintenance instead.
- (4) Civils – costs were higher than the determination mainly as a result of extra civils inspection costs partly offset by savings in reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. The variance due to differences in the reactive maintenance spend (in both Maintenance and Renewals) has been treated as neutral when calculating Network Rail's financial 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 other main area of additional expenditure compared to the determination is for asset inspections. Costs have been higher than expected throughout the control period to date due to extra levels of work required to clear backlogs and contractor disputes. The contract agreed at the start of the control period was unsustainable and included certain assumptions around the level of access that would be available to the contractors to undertake the required work which has proved impossible to grant. In addition, decisions made by Network Rail around working practices (such as extra safety requirements) have increased the costs to the contractors who have sought to pass these on to the client. Completing inspections is vital to the network's safety and operability and so negates the possibility of allowing drawn out discussions (whilst activity ceases) to resolve the differences in opinion. Costs in the control period to date are higher than the determination mainly due to the extra reactive maintenance and asset inspection costs incurred. The reductions in costs compared to the previous year are also due to reduced reactive maintenance requirements.

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

In £m 2017-18 prices unless stated

- (5) Buildings – the vast majority of the costs reported under this heading relate to reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There is also a link to the level of renewals activity as some activities are classified as either Maintenance (included in this statement) or Renewals (refer to Statement 9a) depending upon the exact nature of the work undertaken and whether it meets certain criteria as set out in Network Rail's Cost & Volume Handbook. Intuitively, whilst this does not necessarily increase the overall costs to the organisation it increases the unpredictability of the split between Maintenance and Renewals. Expenditure in the current year in this category is higher than the regulator assumed, bringing the control period to date position in line with the regulatory expectation. Variances in this category 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 – costs for the current year are lower than the regulator assumed, continuing the trend of earlier in the control period. As part of the drive to electrify the Western route, there requires a new set of skills and resources to maintain the new assets, making sure they operate safely and effectively. However, building up this resource has been slower than expected. This is partly due to delays in the enhancement programme and a lack of appropriate resources in the market as well as delays in training. In addition, certain responsibilities are included in the Other network operations heading. There is a noticeable increase in costs compared to the previous year as resources in this area are ramped up.
- (7) Other network operations – costs for the current year are higher than the regulator's expectation, continuing the trend of earlier in the control period. This includes a transfer of responsibilities from the Electrical power category as noted above as well as additional investment in performance and resilience projects. Control period to date costs also include extra safety and performance improvement costs. 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 re-invest these funds in improving the safety and performance of the network. These programmes were managed through the central Network Operations team and hence these costs were included in the Other network operations category. Costs are lower than the previous year as a result of this and the transfer of activity from this category to other headings within this statement (notably Track).
- (8) National Delivery Services – as discussed in the 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 appropriate maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its maintenance activities and so make the most suitable decisions from a cost and asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided as well as some additional income generated from sales of scrap rail. This method of cost allocation has been in situ throughout the control period which explains the noticeably lower costs in the control period to date compared to the ORR determination. The amounts recovered this year were consistent with the previous year.

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

In £m 2017-18 prices unless stated

- (9) 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).

Statement 9a: Summary analysis of renewals expenditure, Western

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Track	93	122	29	327	357	30	81
Signalling	101	52	(49)	396	439	43	94
Civils	39	52	13	231	222	(9)	46
Buildings	10	18	8	59	82	23	8
Electrical power and fixed plant	7	9	2	21	45	24	9
Telecoms	4	5	1	21	25	4	7
Wheeled plant and machinery	6	11	5	28	51	23	8
Information Technology	7	8	1	44	35	(9)	8
Property	1	3	2	7	8	1	1
Other renewals	14	32	18	81	14	(67)	22
Total renewals expenditure	282	312	30	1,215	1,278	63	284

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

In £m 2017-18 prices unless stated

- (1) Renewals expenditure for the year is lower than the determination expected which is a combination of net deferrals of activity partially 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). As a result of the higher like-for-like costs Network Rail has deferred some activities until later in the control period (or into future control periods) in order to optimally utilise the financial resources available. Expenditure in the control period to date is higher than the determination mainly due to higher investment in Track and Signalling. Investment is consistent with the previous year.
- (2) Track – costs are lower than the regulator assumed due to a combination of net deferrals of activity which have more than offset higher underlying costs. The higher like-for-like costs are the result of higher CP4 exit rates and lower than expected efficiencies in the opening years of the control period, a trend which has continued into 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 final 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 and that costs would be higher. This has been exacerbated by increased High output unit costs, where plant failures and limited access have resulted in reduced volumes, meaning each unit delivered has to absorb a higher portion of fixed costs. The High output operations were in-sourced at the end of 2014/15, meaning that there is a level of fixed costs Network Rail must bear regardless of the number of volumes delivered. Planned improvements in High output productivity have also proved over-optimistic, based on a limited sample of activity undertaken in CP4 which were extrapolated to derive the total potential savings that were attainable. The determination also assumed that track efficiencies would be generated through increased access, with longer, more productive possessions. However, the increased demand for passenger travel, along with contractual stipulations, means there are a greater number of trains running at off-peak times, narrowing the window available for works to occur. Network Rail has also made a conscious decision to limit passenger disruption by planning to finish engineering works earlier, reducing the risk of overruns. Whilst this has provided benefits to the passenger experience it has shortened possession windows and necessitated greater on-site costs as extra resource is deployed for contingency purposes. 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 (June 2017) 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 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. Volumes planned for the control period are expected to be lower than the original CP5 Business Plan across all categories but with notable contributions from High Output (a reduction of about three-quarters of the original plan) and S&C refurbishment (about one-third). Investment in the current year is higher than 2016/17 mainly due to extra volumes, including extra high output and Plain line refurbishment works, which offset reductions in S&C delivery.

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

In £m 2017-18 prices unless stated

- (3) Signalling – expenditure was higher than the determination expected, mitigating some of the underspend that had occurred earlier in the control period. The higher costs were due to underlying costs being more expensive than the regulator assumed partly alleviated by deferral of programmes. Some programmes have had to be deferred until future control periods due to insufficient resources (finance, access, contractors) to deliver, such as Paddington to Reading. Expenditure on ERTMS programmes was lower than anticipated as elements of the programme are being re-phased to align with other investment plans for traffic management and digital railway. The determination assumed that signalling efficiencies would arise from contractor savings (cheaper procurement), longer access and design efficiencies to cut scope. Instead, the signalling supply chain has become overheated with a great deal of demand placed upon limited contractor resource, possessions have been shorter (which has minimised passenger disruption but increased costs) and the scope efficiency targets have proved unrealistic (as many of the projects were already specified before the start of the control period thus limiting the opportunity to reduce scope). The extra like for like costs include increases in the expected total costs of some large multi-year re-signalling projects, such as Bristol, where contractor delays and revised commissioning dates have compounded already increased costs. Consequently, Signalling financial underperformance has been recognised in the current year and control period to date (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 (June 2017) 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 although the expenditure in each year reflects the different workbanks and major programmes being undertaken in any given year. The extra costs this year includes additional investment on Oxford Phase 1 and Bristol Area re-signalling as those projects progress.
- (4) Civils – expenditure in the year was lower than the regulator anticipated as higher underlying costs were mitigated by deferral of activity. The higher like-for-like cost continues the trend of earlier years of the control period. Efficiencies assumed by the regulator have also proven to be elusive with significant increases in market tender prices, driving up the costs. This can be observed through the acceleration of the Tender price index at rates some 2000 basis points higher than RPI since Network Rail submitted its Strategic business plan for CP5 to the regulator. In addition, the unit costs of many categories of Civils activities were higher at the end of the previous control period than the regulator assumed, which makes achieving the unit costs assumed by the regulator for CP5 even more challenging. 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 (June 2017) 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 for the control period to date is broadly in line with the determination with higher underlying costs offset by activity being deferred. The higher expenditure is due to a combination of emergency repair works required in the wake of extreme weather damaging the network, beginning the control period with higher unit costs than assumed and higher underlying costs. These higher costs are largely a combination of not achieving the challenging efficiencies in the determination and increased contractor costs (illustrated by the rampant increase in the Tender price index referenced above). Spend is lower than the previous year which included additional investment on Overbridges, notably at Scrubbs Lane.

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

In £m 2017-18 prices unless stated

- (5) Buildings – expenditure in the year was lower than the regulator anticipated as a result of lower volumes of activity partly offset by higher underlying costs. The most noticeable category of underspend was in Depot plant where activity has been limited this control period. The higher like-for-like costs is largely due to higher Light maintenance depot costs. 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 (June 2017) 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 in the control period is lower than the regulatory expectation as less has been invested in Depot plant and Franchised stations. This has been partly offset by extra investment in Buildings maintenance (as shown in Statement 8a). The appropriate asset management solution (maintenance or renewal) is not always known in advance and will depend on a case-by-case analysis of asset condition and requirement.
- (6) Electrical power and fixed plant – costs were lower in the current year than regulator's assumption continuing the pattern from earlier years of the control period. However, the underlying story is one of higher costs partly mitigated by deferrals of activity. 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 scope has been required on certain projects which have resulted in additional costs and there has been extra scope required to deliver the necessary workbank, largely on Signalling power cables. 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 (June 2017) 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 in the control period to date is lower than the determination anticipated. Most of the portfolio in Western this control period is under the Fixed plant category, as there are currently limited electrification assets that require replacing. The delays in electrification enhancement schemes and changes in their scope have also impacted the level of renewals projects required this control period. Resource constraints and the requirement to invest funds optimally have augmented these reductions in expenditure.
- (7) Telecoms – expenditure in the year was in line with the determination but lower in the control period to date. This underspend is a combination of deferrals of activity partly offset by financial underperformance (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 (June 2017) 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 for the control period to date is lower than the regulator assumed with the largest contributor being SISS (Station Information, Surveillance Systems) which has seen a lower than expected level of investment across most routes. Upgrade programmes have been deprioritised and are now planned to be delivered in Control Period 6.

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

In £m 2017-18 prices unless stated

- (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, most notably Road vehicles. Network Rail's strategy at the time of the CP5 determination was to purchase road vehicles. When considering the appropriate strategy for replacement of the ageing Road vehicle fleet, Network Rail considered that leasing the vehicles for a third party would offer more benefits, which means that Maintenance costs will be higher in the future. Also, additional repair costs have been incurred to keep the older vehicles in road-worthy condition, squeezing more value out of the assets. 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. Expenditure in the control period is significantly lower than the regulator anticipated. The aforementioned reduction in Road vehicle acquisitions is the largest contributor. Additionally, the procurement of the new stone blowers (included within the On track plant heading), has been delayed due to the business team working to ensure that the strategy selected 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. On track plant is also lower due to delays in Mobile Elevated Working Platform (MEWP) purchases which have been deferred into future years of the control period and some into CP6. Reductions in expenditure is also due to Network Rail prioritising the limited funding available on those front line investment opportunities which deliver more immediate results to the travelling public as many of the Wheeled plant and machinery purchases can be safely deferred until future control periods, with additional rental or repair costs incurred instead. This trend of underspends compared to the regulator's determination is expected to continue into the final year of the control period. None of the savings compared to the determination have been included as financial outperformance (refer to Statement 5). Expenditure is lower than the previous year which included higher levels of High output plant investment.
- (9) Information technology – investment in the year is on line with the determination in the year but higher for the control period to date. This extra expenditure was anticipated by the ORR who created a "spend to save" framework for Information technology projects as part of the CP5 financial framework so that there was a defined treatment for such items. 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. This was expected in Network Rail's plans at the start of the control period which anticipated higher investment earlier in the control period in order to give more time for the benefits to be reaped.
- (11) Other renewals includes the following notable items:
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. At the end of the previous control period (CP4), the ORBIS programme was not as advanced as the regulator's determination assumed with some projects behind schedule. As a result, additional funding was agreed for Network Rail to complete these projects. Expenditure on these projects is included within the CP4 Rollover category. Once these projects were completed, management focus has shifted towards the programme to be completed in the current control period. The programme is still behind target, which has been reflected in the assessment of Network Rail's financial performance (refer to Statement 5).

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

In £m 2017-18 prices unless stated

- b. Intelligent infrastructure – expenditure is lower than the regulator assumed in the current year, continuing the trend of the control period to date. 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. Network Rail are also assessing where best to invest the funding available to generate the best returns for the railway. Certain non-core activity can be safely deferred until future control periods to allow funds to be diverted to core renewals projects that will provide more immediate benefits.
- c. Faster isolations – expenditure in the current year is higher than the regulatory expectation as some of the funding deferred from previous years has been caught up. This year included a significant programme undertaken to coincide with Crossrail enhancement works.
- d. Research and development – research and development activity in the control period to date has been funded through the enhancements programme (refer to Statement 3). However, the funding available in CP5 to deliver the overall enhancement portfolio is capped. Increases in the costs of other programmes has meant that the Research and development activity required to build capability for CP6 and beyond now has to be funded through renewals. As a result values are included for the first time this year. As there was no renewals funding in the determination this is included as underperformance 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).
- 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 with variances in the control period to date being reversed in the final year of the control period. 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 the previous control period (CP4), 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. Almost all of the expenditure in the current year is on 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 negligible in the current year compared as most of the schemes that were rolled over from CP4 are now substantially completed.
- g. Other – costs reported in this category mainly relates to resilience works undertaken to improve the network. At the end of CP4 the regulator decided to impose a financial penalty on Network Rail for failing to hit train performance targets in CP4. Part of the settlement of the financial penalty included a ring-fenced fund that Network Rail was to invest in this type of network improvement.

Statement 9b: Detailed analysis of renewals expenditure, Western

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Track						
Conventional plain line renewal	27	31	4	122	109	(13)
High output renewal	42	51	9	85	76	(9)
Plain line refurbishment	4	1	(3)	14	5	(9)
S&C renewal	12	18	6	55	75	20
S&C refurbishment	4	3	(1)	12	14	2
Track non-volume	1	6	5	4	26	22
Off track	3	12	9	35	52	17
Total track	93	122	29	327	357	30
Signalling						
Full conventional resignalling	-	-	-	-	17	17
Modular resignalling	-	2	2	-	2	2
ERTMS resignalling	11	31	20	27	79	52
Partial conventional resignalling	70	1	(69)	282	231	(51)
Targeted component renewal	-	1	1	-	22	22
ERTMS train fitment	-	-	-	-	-	-
ERTMS train fitment, risk provision	-	-	-	-	-	-
ERTMS other costs	6	3	(3)	25	15	(10)
Operating strategy other capital expenditure	3	1	(2)	8	10	2
Level crossings	4	3	(1)	20	22	2
Minor works	5	7	2	26	30	4
Centrally managed costs	2	3	1	8	11	3
Other	-	-	-	-	-	-
Total signalling	101	52	(49)	396	439	43
Civils						
Underbridges	10	22	12	60	89	29
Overbridges	4	6	2	21	15	(6)
Bridgeguard 3	-	-	-	-	-	-
Major structures	-	2	2	2	3	1
Tunnels	2	3	1	7	16	9
Other assets	4	2	(2)	37	13	(24)
Structures other	3	3	-	6	20	14
Earthworks	16	14	(2)	98	66	(32)
Other	-	-	-	-	-	-
Total civils	39	52	13	231	222	(9)
Buildings						
Managed stations	1	2	1	15	19	4
Franchised stations	3	6	3	26	41	15
Light maint depots	6	3	(3)	12	8	(4)
Depot plant	-	6	6	-	10	10
Lineside buildings	-	-	-	3	2	(1)
MDU buildings	-	1	1	3	2	(1)
NDS depots	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capitalised overheads	-	-	-	-	-	-
Total buildings	10	18	8	59	82	23

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

In £m 2017-18 prices unless stated

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference
Electrical power and fixed plant						
AC distribution	-	-	-	-	-	-
Overhead Line	-	1	1	-	1	1
DC distribution	-	-	-	-	-	-
Conductor rail	-	-	-	-	-	-
SCADA	-	-	-	-	-	-
Energy efficiency	-	-	-	-	-	-
System capability / capacity	-	-	-	-	-	-
Other electrical power	-	2	2	-	9	9
Fixed plant	7	6	(1)	21	35	14
Total electrical power and plant	7	9	2	21	45	24
Telecoms						
Operational communications	-	2	2	1	3	2
Network	-	2	2	1	3	2
SISS	-	-	-	4	11	7
Projects and other	2	-	(2)	-	2	2
Non-route capital expenditure	2	1	(1)	15	6	(9)
Total telecoms	4	5	1	21	25	4
Wheeled plant and machinery						
High output	1	1	-	11	12	1
Incident response	-	-	-	-	1	1
Infrastructure monitoring	1	1	-	1	2	1
Intervention	3	2	(1)	7	12	5
Materials delivery	-	-	-	3	-	(3)
On track plant	1	2	1	3	7	4
Seasonal	-	1	1	-	5	5
Locomotives	-	-	-	-	-	-
Fleet support plant	-	1	1	-	2	2
Road vehicles	-	3	3	2	10	8
S&C delivery	-	-	-	1	-	(1)
Total wheeled plant and machinery	6	11	5	28	51	23
Information Technology						
IM delivered renewals	7	7	-	42	31	(11)
Traffic management	-	1	1	2	4	2
Total information technology	7	8	1	44	35	(9)
Property						
MDUs/offices	1	2	1	2	6	4
Commercial estate	-	1	1	5	2	(3)
Corporate services	-	-	-	-	-	-
Total property	1	3	2	7	8	1
Other renewals						
Asset information strategy	2	2	-	15	18	3
Intelligent infrastructure	1	2	1	4	8	4
Faster isolations	10	4	(6)	12	15	3
LOWS	-	-	-	-	1	1
Small plant	-	1	1	2	4	2
Research and development	1	-	(1)	1	-	(1)
Phasing overlay	-	23	23	-	(32)	(32)
Engineering innovation fund	-	-	-	-	-	-
CP4 rollover	-	-	-	39	-	(39)
Other	-	-	-	8	-	(8)
West Coast	-	-	-	-	-	-
Total other renewals	14	32	18	81	14	(67)
Total renewals	282	312	30	1,215	1,278	63

Statement 9b: Detailed analysis of renewals expenditure (unaudited), Western – continued

In £m 2017-18 prices unless stated

Note:

- (1) The information in the table above is not required by the Regulatory Accounting Guidelines (June 2017) and has not been audited. It is disclosed for information purposes only

Statement 10: Other information, Western

In £m 2017-18 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2017-18 PR13	Difference	Actual	Cumulative PR13	Difference	2016-17 Actual
Schedule 4							
Performance element income	-	-	-	-	-	-	-
Performance element costs	22	24	2	101	89	(12)	21
Access charge supplement Income	(24)	(24)	-	(101)	(101)	-	(24)
Net (income)/cost	(2)	-	2	-	(12)	(12)	(3)

Schedule 8

Performance element income	-	-	-	-	-	-	-
Performance element costs	34	1	(33)	87	1	(86)	26
Access charge supplement Income	-	-	-	-	-	-	-
Net (income)/cost	34	1	(33)	87	1	(86)	26

B) Opex memorandum account

	2017-18	Cumulative	2016-17
Volume incentive	(3)	1	-
Proposed income/(expenditure) to be included in the CP6	-	-	-
Business Rates	5	7	1
RSSB Costs	-	-	-
ORR licence fee and railway safety levy	(1)	1	-
Reporters fees	-	-	-
Other industry costs	-	-	1
Difference in CP4 opex memo	-	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-	-
Total logged up items	1	8	2

Statement 10: Other information, Western – continued

In £m 2017-18 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred to deliver enhancements are capitalised as part of the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their income. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on certain items defined by the Regulatory Accounting Guidelines (June 2017).
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated passenger and freight demand (refer to Statement 12). Unlike in CP4, 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 net income/ costs are the net of contractual receipts from operators (Access charge supplement income) and compensation payments made to operators when Network Rail takes possession of parts of the network (Performance element costs). As the income received by Network Rail under this mechanism is contractual it is expected to be broadly in line with the PR13 target. Performance element costs are broadly in line with the determination assumed. However, this is mostly a result of undertaking less renewals activity than the determination assumed (which is discussed further in Statement 9a) which necessitated fewer possessions offset by higher average possession costs. Savings in Schedule 4 arising from reductions in renewals activity are not eligible when assessing financial performance. As the level of renewals activity decreased by more than the decrease in Schedule 4 costs financial underperformance has been recognised this year (refer to Statement 5a). The determination assumed that the average cost of possessions would decrease as time went on. However, this has not happened. Instead, the costs have increased. Undertaking fewer volumes in a more targeted manner has meant there are fewer volumes to absorb the possession compensation charges. The trend of only being able to obtain shorter possessions rather than longer blockades minimises passenger disruption but limits the productivity of possessions. Costs in the control period to date are higher than the regulatory assumption despite a deferral of renewals works requiring possessions. Costs are broadly in line with the previous year.

Statement 10: Other information, Western – continued

In £m 2017-18 prices unless stated

- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2017/18. The CP5 determination envisaged that train performance in CP5 would improve significantly and that under the schedule 8 performance regime Network Rail would be broadly neutral (with some minor allowances to cover delays to freight services). Network Rail made it clear in its' 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 because train performance at the end of CP4 was notably adverse to the PR13 assumption. 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 this control period. Train performance is 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. The impact of network congestion was not fully understood when the plans for CP5 was established. In addition, train performance was severely impacted by the disruption caused by Storm Emma at the end of February when snowfall adversely affected a number of day's punctuality and so resulted in significant compensation payments. Other one-off events which hampered train performance included a derailment at Paddington station as well as storm damage in June 2017. Costs are higher than the previous year. This is partly due to the regulator's targets for delay minutes tightening each year, meaning Network Rail has to do more just to stand still. Whilst 2016/17 was impacted by a smaller number of lower value one-off weather events, such as flash-floods in London (June 2016) and storm Doris (February 2017), the current year was dominated by the impact of a single weather event, storm Emma. Costs this year were also affected by the new rolling stock introduced to the network as part of the IEP programme. There have been some integration issues with these new trains which have caused damage to infrastructure (notably overhead lines) and so performance issues.
- (3) The opex memorandum currently shows a net income for this year which is primarily due to changes in the Business Rates that Network Rail has had to endure this year compared to the regulatory assumption. Well-publicised increases in Business Rates came into effect from April 2017 which has contributed to the value of the opex memorandum compared to the previous year and is expected to impact the for 2018/19 as well. The opex memorandum this year also includes penalties under the Volume Incentive (see 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. For the control period to date, differences in Business Rates is the main driver of the balance.

Statement 11:

There is no Statement 11 required for Western

Statement 12: Volume incentives, Western

In £m 2017-18 prices unless stated

	Volume incentive cumulative to 2017-18	Contribution to volume incentive in year	Actual in year	2016-17 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(7)	(1)	27	28	1.4%	1.56	pence per passenger train mile
Passenger farebox (millions)	(6)	(1)	916	933	3.7%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(3)	(1)	2	2	1.6%	3.16	pence per freight train mile
Freight gross tonne miles (thousands)	(1)	0	2,623	2,631	1.9%	2.68	pence per freight 1,000 gross tonne mile
Total volume incentive	(17)	(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:
A_t = Actual in year quantity
B = 2017-18 baseline
C_t = Baseline annual growth (trigger target)
D = Incentive rate
VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Western – continued

In £m 2017-18 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) Similar incentive mechanisms operated in earlier control periods but for CP5, 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 the volume incentive rules in operation in previous control periods, there was no downside for Network Rail.
- (3) Income or costs arising under the volume incentive are added to the opex memo (refer to statement 10) rather than resulting in any direct cashflows (either receipts or payments) in the current control period.
- (4) Under the Regulatory Accounting Guidelines (June 2017) published by ORR Network Rail is obliged to multiply the volume incentive relating to 2017/18 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 performance compared to the volume incentive baselines in 2017/18 provides much insight to how it has performed during the control period to date. Network Rail only recognises amounts relating to the current year when calculating financial outperformance for the current year (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2017/18 displays the raw data rounded to the nearest million. Therefore it is not simply the contribution to volume incentive in the year multiplied by the number of years of the control period (5 years).

Comments:

- (1) This year, Network Rail has underperformed the regulator's targets for both passenger and freight and so has recognised a loss as a result, reversing some of the gains made in earlier in the control period. This underperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5) and is largely the result of the continued structural decline in the freight market along with slower growth in passenger numbers and revenue. Despite these challenges, Western has outperformed in the control period to date. However, as the targets get harder each year, outperforming in the final year of the control period is unlikely.

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC £m	Total AFV unit	Unit Cost £k/unit	unit	£m	Total AFC £m	Total AFV unit	Unit Cost £k/unit
Track	Conventional plain line Renewal	km	29	27	29	36	806	42	23	54	102	529
	High Output Renewal	km	30	41	57	45	1,267	22	22	22	22	1,000
	Plain line Refurbishment	km	66	3	6	110	55	38	3	7	82	85
	S&C Renewal/Refurbishment	point ends	54	9	19	146	130	87	16	20	127	157
	Track Drainage	lm	25,553	1	4	25,930	0	20,542	1	5	26,245	0
	Fencing	km	38	1	3	125	24	42	1	3	122	25
	Slab Track	km	-	-	-	-	-	-	-	-	-	-
	Off track	km/No.	1	-	-	1	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	82	118	-	-	-	66	111	-	-
Signalling	Full Conventional Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Modular Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	ERTMS Resignalling	SEU	-	-	-	-	-	-	-	-	-	-
	Partial Conventional Resignalling	SEU	3	-	1	3	333	213	49	233	514	453
	Targeted Component Renewal	SEU	1	-	-	1	-	-	-	-	-	-
	ERTMS Train Fitment	-	-	-	-	-	-	-	-	-	-	-
	ERTMS Other costs	-	-	-	-	-	-	-	-	-	-	-
	Operating Strategy & Other	-	-	-	-	-	-	-	-	-	-	-
	Level Crossings	No.	3	3	4	3	1,333	4	4	9	7	1,286
	Minor Works	-	-	-	-	-	-	-	-	-	-	-
	Centrally Managed Costs	-	-	-	-	-	-	-	-	-	-	-
	Accelerated Renewals Signalling (CP6)	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	3	5	-	-	-	53	242	-	-
Civils	Underbridges	m ²	1,952	5	27	4,057	7	1,815	9	36	5,935	6
	Overbridges (incl BG3)	m ²	210	-	8	727	11	355	4	10	780	13
	Major Structures	-	-	-	-	-	-	-	-	-	-	-
	Tunnels	m ²	3,219	-	-	3,491	-	36	2	2	36	56
	Culverts	m ²	87	1	1	162	6	81	-	1	224	4
	Footbridges	m ²	-	-	-	-	-	-	-	-	-	-
	Coastal & Estuarial Defences	m	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m ²	160	1	1	220	5	50	-	1	100	10
	Structures Other	-	-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	322	8	24	947	25	507	8	29	1,795	16
	EW Drainage	m	33,517	1	1	34,099	0	25,704	1	3	35,105	0
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	16	62	-	-	-	24	82	-	-
Buildings	Buildings (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Platforms (MS)	-	-	-	-	-	-	-	-	-	-	-
	Canopies (MS)	m ²	-	-	-	-	-	-	-	-	-	-
	Train sheds (MS)	m ²	-	-	-	-	-	7,665	1	3	7,665	0
	Footbridges (MS)	-	-	-	-	-	-	-	-	-	-	-
	Other (MS)	m ²	9,508	-	-	9,508	-	8,330	1	3	8,330	0
	Buildings (FS)	m ²	1,624	-	-	2,700	-	1,076	-	-	1,076	-
	Platforms (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Canopies (FS)	m ²	(381)	1	1	(661)	(2)	-	-	-	-	-
	Train sheds (FS)	m ²	-	-	-	-	-	-	-	-	-	-
	Footbridges (FS)	m ²	60	-	1	60	17	70	-	-	70	-
	Lifts & Escalators (FS)	-	-	-	-	-	-	-	-	-	-	-
	Other (FS)	-	1,067	-	7	29,150	0	2,165	-	-	6,035	-
	Light Maintenance Depots	m ²	12,947	6	9	12,947	1	8,000	-	-	8,000	-
	Depot Plant	-	-	-	-	-	-	-	-	-	-	-
	Lineside Buildings	m ²	-	-	-	-	-	-	-	-	-	-
	MDU Buildings	m ²	-	-	-	-	-	690	-	-	690	-
	NDS Depot	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
Total			-	7	18	-	-	-	2	6	-	-

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

In £m 2017-18 prices unless stated

Asset	Activity type	Unit	FY18		Full Project			FY17		Full Project		
			Volume	Cost	A	B	C = A ÷ B	Volume	Cost	A	B	C = A ÷ B
			unit	£m	Total AFC	Total AFV	Unit Cost	unit	£m	Total AFC	Total AFV	Unit Cost
					£m	unit	£k/unit			£m	unit	£k/unit
Electrical power and fixed plant	Wiring	Wire runs	-	-	-	-	-	-	-	-	-	-
	Mid-life refurbishment	Wire runs	-	-	-	-	-	-	-	-	-	-
	Structure renewals	No.	-	-	-	-	-	-	-	-	-	-
	Other OLE		-	-	-	-	-	-	-	-	-	-
	OLE abandonments		-	-	-	-	-	-	-	-	-	-
	Conductor rail	km	-	-	-	-	-	-	-	-	-	-
	HV Switchgear Renewal AC	No.	-	-	-	-	-	-	-	-	-	-
	HV Cables AC		-	-	-	-	-	-	-	-	-	-
	Protection Relays AC	No.	-	-	-	-	-	-	-	-	-	-
	Booster Transformers AC		-	-	-	-	-	-	-	-	-	-
	Other AC		-	-	-	-	-	-	-	-	-	-
	HV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	HV cables DC	km	-	-	-	-	-	-	-	-	-	-
	LV cables DC	km	-	-	-	-	-	-	-	-	-	-
	Transformer Rectifiers DC		-	-	-	-	-	-	-	-	-	-
	LV switchgear renewal DC	No.	-	-	-	-	-	-	-	-	-	-
	Protection Relays DC	No.	-	-	-	-	-	-	-	-	-	-
	Other DC		-	-	-	-	-	-	-	-	-	-
	SCADA	RTU	-	-	-	-	-	-	-	-	-	-
	Energy efficiency		-	-	-	-	-	-	-	-	-	-
	System Capability/Capacity		-	-	-	-	-	-	-	-	-	-
	Other Electrical Power		-	-	-	-	-	-	-	-	-	-
	Points Heaters	point end	-	-	-	-	-	-	-	-	-	-
	Signalling Power Cables	km	112	-	2	136	15	24	-	-	24	-
	Signalling Supply Points	No.	-	-	-	-	-	-	-	-	-	-
	Other Fixed Plant		-	-	-	-	-	-	-	-	-	-
Total			-	-	2	-	-	-	-	-	-	-
Telecoms	Customer Information Systems	No.	-	-	-	-	-	-	-	-	-	-
	Public Address	No.	-	-	-	-	-	-	-	-	-	-
	CCTV	No.	-	-	-	-	-	339	2	2	365	5
	Other Surveillance	No.	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	No. lines	-	-	-	-	-	-	-	-	-	-
	DOO CCTV	No.	-	-	-	-	-	-	-	-	-	-
	DOO Mirrors		-	-	-	-	-	-	-	-	-	-
	PETS	No.	5	-	-	5	-	-	-	-	-	-
	HMI Small		-	-	-	-	-	-	-	-	-	-
	HMI Large	No.	-	-	-	-	-	-	-	-	-	-
	Radio		-	-	-	-	-	-	-	-	-	-
	Power		27	-	-	27	-	-	-	-	-	-
	Other comms		-	-	-	-	-	-	-	-	-	-
	Network	No.	3	-	1	8	125	5	-	1	10	100
	Projects and Other		-	-	-	-	-	-	-	-	-	-
	Non Route capex		-	-	-	-	-	-	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-
Total			-	-	1	-	-	-	2	3	-	-

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

In £m 2017-18 prices unless stated

Notes:

- (1) No PR13 equivalent has been supplied to compare costs and volumes against. Therefore, variance analysis can only be performed against the previous year.
- (2) In line with the ORR's Regulatory Accounting Guidelines (June 2017), this statement only records the unit costs for renewals programmes that have volumes reported against them in 2017/18 (or 2016/17 for the prior year tables). Therefore, the total level of expenditure in this statement will not agree to the renewals expenditure set out in Statement 9b, which includes costs for programmes which have not delivered volumes in the year (such as design costs, or where a project is in flight over year end and has yet to deliver any volumes) and expenditure on items which do not result in the recognition of volumes as defined in Network Rail's Cost & Volume Handbook. In addition, amounts reported in Statement 9b include incidences where an accrual made at 2016/17 year end has proved to be either too high or too low. As no volumes would be reported against these projects in 2017/18, they would be excluded from the scope of this statement.

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. Instead, to better understand financial performance assessments are made at individual project level (refer to Statement 5) rather than through comparisons of unit rates to abstract baselines.
- (2) Track – In Conventional Plan Line Renewal there was an increase in the unit cost in 2017-18 compared to the prior year. This is due to the different mix of work bank that was delivered in the year. Location as well as complexity of the job can have a strong influence on unit rate especially when the sample size is small. In High Output there has been an increase in the unit rate because unlike in the prior year in 2017-18 there were a number of expensive jobs involving re-sleepering.
- (3) Signalling – There was a decrease in the unit cost in the Partial Conventional Re-signalling category. However in 2016-17 there was a massive job at Bristol delivering 514 volumes compared to only one small job at Melverns in the current year delivering only 3 volumes. It isn't meaningful to make comparisons between the unit costs of these two projects.

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

In £m 2017-18 prices unless stated

- (4) Civils - There was a decrease in the unit cost of Retaining Walls but there were only three projects across the two years so any analysis would be meaningless. There was an increase in the unit rate in the Earthwork category but this was skewed by the vegetation management work in the current year which was very expensive but yielded few volumes.
- (5) Telecoms – There has been an increase in the unit cost in the Network category in the current year. There was only one project in this category and it ran over both years. There was no increase in the cost but the total volumes delivered has decreased in the current year which by definition reduces the unit cost.

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 2018

In £m 2017/18 prices unless stated

	£m	£m
RAB valuation at 31 March 2018 (Statement 2a)		66,798
Investment properties		(1,340)
Adjustment for cash flow differences in the latest Business Plan compared to Periodic Review 2013		(1,341)
Other		25
Property, plant and equipment per NRL statutory accounts at 31 March 2018		64,142

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

Year ended 31 March 2018

In £m 2017/18 prices unless stated

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2018 per the regulatory Statements (Statement 1)	1,642	1,380	3,022
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets ⁽¹⁾	1,539		1,539
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	164		164
Network Rail (High Speed) Limited	(8)		(8)
Other	14		14
	1,709	-	1,471
Operating and maintenance expenditure for year ended 31 March 2018 per NRL statutory accounts	3,351	1,380	4,731

Notes:

⁽¹⁾ This includes depreciation expenses of £1,638m and capital grant amortisation of £99m.

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2018

In £m 2017/18 prices unless stated

	£m	£m
Regulatory income for year ended 31 March 2018 (Statement 6a)		7,132
Differences between regulatory income and statutory turnover		
Performance regime (Schedule 4 & 8)	(439)	
Income from property sales	(70)	
Network Rail (High Speed) Limited	(8)	
Opex memorandum timing difference	(37)	
Other	<u>2</u>	
		(552)
Turnover per NRL statutory accounts for year ended 31 March 2018		6,580

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2018

In nominal prices

	£m	£m
Regulatory debt at 31 March 2018 (Statement 4)		50,358
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Fair value hedging and fair value through profit & loss adjustment	815	
Foreign exchange differences	<u>124</u>	
		939
Net debt per NRL statutory accounts at 31 March 2018		51,297

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

Year ended 31 March 2018

In £m 2017/18 prices unless stated

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2018 (Statement 1)		5,716
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	753	
Capitalised interest	174	
Investment property schemes	(7)	
Other	(5)	
		915
Capital expenditure per NRL statutory accounts for the year ended 31 March 2018		6,631

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

Year ended 31 March 2018

In £m 2017/18 prices unless stated

	£m	£m
Total financing costs for the year ended 31 March 2018 (Statement 1)		2,347
Differences between regulatory interest expense and statutory interest expense		
Capitalised interest	(174)	
Net finance costs relating to defined pension schemes assets and liabilities	57	
Investment revenue disclosed separately in statutory accounts	8	
Other	(5)	
		(114)
Interest expense per NRL statutory accounts for the year ended 31 March 2018		2,233