

Network Rail Infrastructure Limited

Regulatory Financial Statements

Year ended 31 March 2011

Contents

Directors' Review.....	9
Statement of Directors' Responsibilities.....	19
Independent Auditors' Report to the company and the ORR - PwC.....	20
Independent Reporters' Report to the company and the ORR – Arup	23
Accounting Policies	26
Statement 1: GB Summary regulatory financial performance.....	28
Statement 2a: GB RAB - regulatory financial position	30
Statement 2b: GB RAB - reconciliation of expenditure	31
Statement 2c: Summary of RAB movements.....	34
Statement 3: GB Analysis of enhancement capital expenditure	35
Statement 4: GB Net debt and financial ratios	38
Statement 5: GB Financial Performance Statement	41
Statement 6a: GB Analysis of income.....	42
Statement 6b: GB Analysis of other single till income (not published)	
Statement 6c: GB Analysis of income by operator.....	44
Statement 7a: GB Analysis of operating expenditure	52
Statement 7b: GB Analysis of operating expenditure by activity (not published)	
Statement 7c: GB Insurance reconciliation (not published)	
Statement 7d: GB Cost of own work capitalised (not published)	
Statement 8a (1): GB Summary analysis of maintenance expenditure	54
Statement 8a (2): GB Summary analysis of maintenance headcount by activity	55
Statement 8b (1): GB Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU) (not published)	
Statement 8b (2): GB Analysis of maintenance headcount by MDU (not published)	
Statement 9a: GB Summary analysis of renewals expenditure.....	56
Statement 9b: GB Detailed analysis of renewals expenditure (not published)	
Statement 9b: GB Detailed analysis of renewals expenditure (not published) continued	
Statement 10: GB Other information	58
Statement 11: GB Analysis of Network Rail's charges to Network Rail CTRL for work on HS1 (not published)	

Statement 12: GB Analysis of efficiency (Real Economic Efficiency Measure).....	60
Statement 13: GB Volume incentives.....	62
Statement 14: GB Maintenance unit costs.....	63
Statement 15: GB Renewals unit costs and coverage.....	64
Statement 16: GB Renewals - track unit costs and volumes	65
Statement 17: GB Other Unit Costs	67
DISAGGREGATED FINANCIAL INFORMATION.....	68
Statement 1: England & Wales Summary regulatory financial performance	69
Statement 2a: England & Wales RAB - regulatory financial position	71
Statement 2b: England & Wales RAB - reconciliation of expenditure.....	72
Statement 2c: England & Wales Summary of RAB movements	75
Statement 3: England & Wales Analysis of enhancement capital expenditure	76
Statement 4: England & Wales Net debt and financial ratios	79
Statement 5: England & Wales Financial Performance Statement.....	82
Statement 6a: England & Wales Analysis of income	83
Statement 6b: England & Wales Analysis of other single till income (not published)	
Statement 6c: England & Wales Analysis of income by operator	85
Statement 7a: England & Wales Analysis of operating expenditure.....	92
Statement 7b: England & Wales Analysis of operating expenditure by activity (not published)	
Statement 7c: England & Wales Insurance reconciliation (not published)	
Statement 7d: England & Wales Cost of own work capitalised (not published)	
Statement 8a (1): England & Wales Summary analysis of maintenance expenditure.....	94
Statement 8a (2): England & Wales Summary analysis of maintenance headcount by activity.....	95
Statement 8b (1): England & Wales Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU) (not published)	
Statement 8b (2): England & Wales Analysis of maintenance headcount by MDU (not published)	
Statement 9a: England & Wales Summary analysis of renewals expenditure	96
Statement 9b: England & Wales Detailed analysis of renewals expenditure (not published)	
Statement 10: England & Wales Other Information	98
Statement 11: England & Wales Analysis of Network Rail's charges to Network Rail CTRL for work on HS1 (not published)	

Statement 12: England & Wales Analysis of efficiency (Real Economic Efficiency Measure)	100
Statement 13: England & Wales Volume incentives	102
Statement 14: England & Wales Maintenance unit costs	103
Statement 15: England & Wales Renewals unit costs and coverage	104
Statement 17: England & Wales Other	105
Statement 1: Scotland Summary regulatory financial performance	106
Statement 2a: Scotland RAB - regulatory financial position	108
Statement 2b: Scotland RAB - reconciliation of expenditure	109
Statement 2c: Scotland Summary of RAB movements	112
Statement 3: Scotland Analysis of enhancement capital expenditure	113
Statement 4: Scotland Net debt and financial ratios	115
Statement 5: Scotland Financial Performance Statement	118
Statement 6a: Scotland Analysis of income	119
Statement 6b: Scotland Analysis of other single till income (not published)	
Statement 6c: Scotland Analysis of income by operator	121
Statement 7a: Scotland Analysis of operating expenditure	124
Statement 7b: Scotland Analysis of operating expenditure by activity (not published)	
Statement 7c: Scotland Insurance reconciliation (not published)	
Statement 7d: Scotland Cost of own work capitalised (not published)	
Statement 8a (1): Scotland Summary analysis of maintenance expenditure	126
Statement 8a (2): Scotland Summary analysis of maintenance headcount by activity	127
Statement 8b (1): Scotland Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU) (not published)	
Statement 8b (2): Scotland Analysis of maintenance headcount by MDU (not published)	
Statement 9a: Scotland Summary analysis of renewals expenditure	128
Statement 9b: Scotland Detailed analysis of renewals expenditure (not published)	
Statement 10: Scotland Other Information	130
Statement 11 (not published)	
Statement 12: Scotland Analysis of efficiency (Real Economic Efficiency Measure)	132
Statement 13: Scotland Volume incentives	134
Statement 14: Scotland Maintenance unit costs	135

Statement 15: Scotland Renewals unit costs and coverage	136
Statement 17: Scotland Other Unit Costs	137

DISAGGREGATED ROUTE INFORMATION

Statement 1: Anglia Summary regulatory financial performance (not published)	
Statement 3: Anglia Analysis of enhancement capital expenditure (not published)	
Statement 6a: Anglia Analysis of income (not published)	
Statement 7a: Anglia Analysis of operating expenditure (not published)	
Statement 8a: Anglia Summary analysis of maintenance expenditure (not published)	
Statement 9a: Anglia Summary analysis of renewals expenditure (not published)	
Statement 10: Anglia Other information (not published)	
Statement 13: Anglia Volume incentives (not published)	
Statement 1: Kent Summary of regulatory financial performance (not published)	
Statement 3: Kent Analysis of enhancement capital expenditure (not published)	
Statement 6a: Kent Analysis of income (not published)	
Statement 7a: Kent Analysis of operating expenditure (not published)	
Statement 8a: Kent Summary analysis of maintenance expenditure (not published)	
Statement 9a: Kent Summary analysis of renewals expenditure (not published)	
Statement 10: Kent Other information (not published)	
Statement 13: Kent Volume incentives (not published)	
Statement 1: LNE Summary regulatory financial performance (not published)	
Statement 3: LNE Analysis of enhancement capital expenditure (not published)	
Statement 6a: LNE Analysis of income (not published)	
Statement 7a: LNE Analysis of operating expenditure (not published)	
Statement 8a: LNE Summary analysis of maintenance expenditure (not published)	
Statement 9a: LNE Summary analysis of renewals expenditure (not published)	
Statement 10: LNE Other information (not published)	
Statement 13: LNE Volume incentives (not published)	
Statement 1: LNW Summary regulatory financial performance (not published)	
Statement 3: LNW Analysis of enhancement capital expenditure (not published)	
Statement 6a: LNW Analysis of income (not published)	

Statement 7a: LNW Analysis of operating expenditure (not published)

Statement 8a: LNW Summary analysis of maintenance expenditure (not published)

Statement 9a: LNW Summary Analysis of renewals expenditure (not published)

Statement 10: LNW Other information (not published)

Statement 13: LNW Volume incentives (not published)

Statement 1: Midland Summary regulatory financial performance (not published)

Statement 3: Midland Analysis of enhancement capital expenditure (not published)

Statement 6a: Midland Analysis of income (not published)

Statement 7a: Midland Analysis of operating expenditure (not published)

Statement 8a: Midland Summary analysis of maintenance expenditure (not published)

Statement 9a: Midland Summary analysis of renewals expenditure (not published)

Statement 10: Midland Other information (not published)

Statement 13: Midland Volume incentives (not published)

Statement 1: Sussex Summary regulatory financial performance (not published)

Statement 3: Sussex Analysis of enhancement capital expenditure (not published)

Statement 6a: Sussex Analysis of income (not published)

Statement 7a: Sussex Analysis of operating expenditure (not published)

Statement 8a: Sussex Summary analysis of maintenance expenditure (not published)

Statement 9a: Sussex Summary analysis of renewals expenditure (not published)

Statement 10: Sussex Other information (not published)

Statement 13: Sussex Volume incentives (not published)

Statement 1: Wessex Summary regulatory financial performance (not published)

Statement 3: Wessex Analysis of enhancement capital expenditure (not published)

Statement 6a: Wessex Analysis of income (not published)

Statement 7a: Wessex Analysis of operating expenditure (not published)

Statement 8a: Wessex Summary analysis of maintenance expenditure (not published)

Statement 9a: Wessex Summary analysis of renewals expenditure (not published)

Statement 10: Wessex Other information (not published)

Statement 13: Wessex Volume incentives (not published)

Statement 1: Western Summary regulatory financial performance (not published)

Statement 3: Western Analysis of enhancement capital expenditure (not published)	
Statement 3: Western Analysis of enhancement capital expenditure (not published) continued	
Statement 6a: Western Analysis of income (not published)	
Statement 7a: Western Analysis of operating expenditure (not published)	
Statement 8a: Western Summary analysis of maintenance expenditure (not published)	
Statement 9a: Western Summary analysis of renewals expenditure (not published)	
Statement 10: Western Other information (not published)	
Statement 13: Western Volume incentives (not published)	
Statement 1: Mersey Summary regulatory financial performance (not published)	
Statement 3: Mersey Analysis of enhancement capital expenditure (not published)	
Statement 6a: Mersey Analysis of income (not published)	
Statement 7a: Mersey Analysis of operating expenditure (not published)	
Statement 8a: Mersey Summary analysis of maintenance expenditure (not published)	
Statement 9a: Mersey Summary analysis of renewals expenditure (not published)	
Statement 10: Mersey Other information (not published)	
Statement 13: Mersey Volume incentives (not published)	
Statement 1: Wales Summary regulatory financial performance (not published)	
Statement 3: Wales Analysis of enhancement capital expenditure (not published)	
Statement 6a: Wales Analysis of income (not published)	
Statement 7a: Wales Analysis of operating expenditure (not published)	
Statement 8a: Wales Summary analysis of maintenance expenditure (not published)	
Statement 9a: Wales Summary analysis of renewals expenditure (not published)	
Statement 10: Wales Other information (not published)	
Statement 13: Wales Volume incentives (not published)	
Statement 18: Strategic routes maintenance analysis (not published)	
Statement 19: Strategic routes renewals analysis (not published)	
Appendices to the Regulatory Financial Statements	138
Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation.....	139
Appendix B: Reconciliation of Operating and Maintenance Expenditure between Regulatory financial statements and Statutory Accounts	139
Appendix C: Reconciliation of Regulatory Income to Statutory Turnover.....	140

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt	140
Appendix E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure	141
Appendix F: Disaggregated Financial Statements	142

Directors' Review

These regulatory financial statements (RFS) mark the end of the second year of Control Period 4. This year saw Network Rail continue to reduce its running costs, and we remain on target to achieve the challenging efficiency savings first set out in our CP4 Delivery Plan in 2009. In real terms, over £400m has been taken out of running costs in the year, and around £600m since the start of this regulatory period.

The comprehensive spending review reaffirmed that governments in both Westminster and Holyrood continue to see investing in rail as a driver of economic well-being and a contributor to sustainable economic development. But the findings of the Government-commissioned McNulty value for money study also show that there are clear opportunities for the whole rail industry to make further savings in the costs of the railway. The message is clear: the rail industry simply has to become more affordable for both the users of the railway network and for tax payers.

Part of building closer relationships with customers and stakeholders is making sure that they share in any outperformance of the regulatory settlement by Network Rail. This year Network Rail was able to repay more than £100m via reduced access charges from outperformance to our customers. (Outperformance occurs when Network Rail saves even more money than agreed as part of the regulatory settlement.)

Progress in achieving the CP4 Delivery Plan

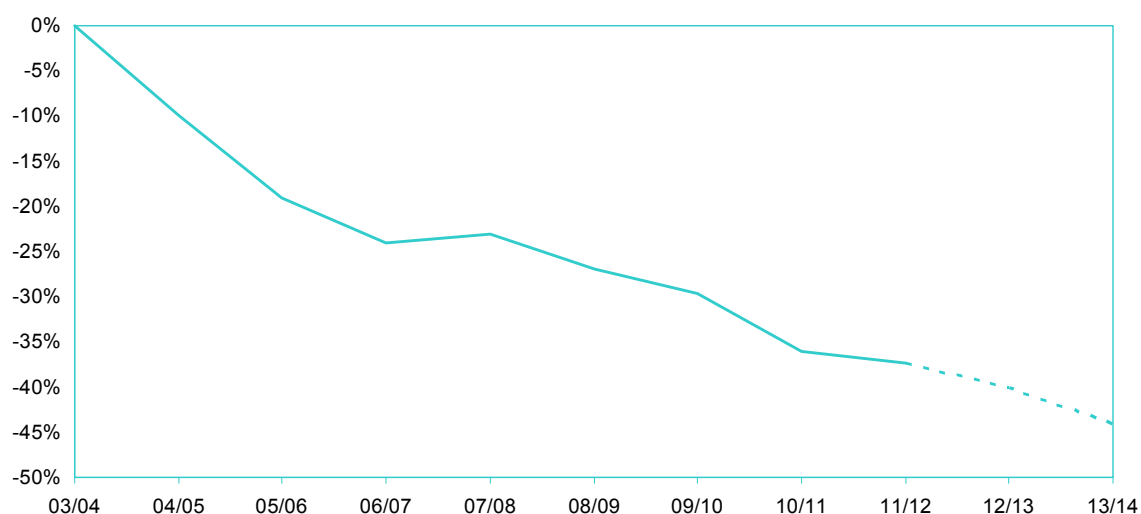
Network Rail continues to make sound progress against the CP4 Delivery Plan. The Plan was Network Rail's response to the five year regulatory settlement. It sets out how Network Rail would achieve the outputs required using the funding available, whilst achieving at least the reduction in running costs required by the regulatory settlement.

Network Rail produces an annual Delivery Plan update, the most recent being published in February 2011. This confirmed that Network Rail remains on course to achieve all of its regulatory outputs and that opportunities exist to outperform the financial targets.

The Real Economic Efficiency Measure (REEM) records how the running costs of the railway have decreased. This is calculated after adjusting for inflation, and by comparison to the base year 2008/09. It shows that our running costs in the year are, in real terms, 13.2 per cent lower than in 2008/09, and 10 per cent lower than last year. The definition of the measure is agreed with the Office of Rail Regulation (ORR); they have yet to finally agree the percentages. The REEM is discussed further in Statement 12.

Our CP4 Delivery Plan requires us to achieve efficiencies of 23 per cent by 2013/14. If we achieve this target, then, over a 10 year period we will have reduced costs by over 44 per cent in real terms.

Reductions in running costs 2003-2014



Asset Stewardship

Network Rail has made significant efficiencies in both its renewals and maintenance activities. It is vital that these savings are not made at the expense of the quality of the assets that comprise the railway network.

Network Rail uses the asset stewardship indicator to assess the quality of its assets. The measure helps to demonstrate that cost efficiencies have been made in a sustainable way.

The asset stewardship indicator includes over 20 separate measures, which record both the condition and performance of the Group's key infrastructure assets. The measure exceeded target for the year, reaching 0.067 an improvement on last year (2010: 0.032). This improvement was due to low levels of serious rail defects, and improvements in the robustness of signalling and telecom assets.

Financial Review of the Year

Statement 1 Summary of regulatory performance

In March 2009, Network Rail published its CP4 Delivery Plan which set out how Network Rail intends to deliver the outputs for the five year regulatory settlement. The Delivery Plan is updated annually. The Delivery Plan update 2010 assumes a different profile to the PR08 regulatory determination. The table below shows how the Delivery Plan update 2010 varies from the PR08 and the actual results during 2010/11:

Summary income and expenditure comparison to Delivery Plan update 2010 (DPu10) and PR08 2010-11

£m	Actual	DPu10	Difference to DPu10	Difference between DPu10 and PR08	Difference between actual and PR08
Income	6,020	5,960	60	(32)	28
Expenditure					
Controllable opex	909	971	62	(170)	(108)
Non-controllable opex	419	421	2	(26)	(24)
Maintenance 1	,068	1,058	(10)	113	103
Schedule 4 & 8	184	153	(31)	17	(14)
Renewals	2,234	2,751	517	(149)	368
Enhancements	1,338	2,192	854	89	943
Financing costs	1,539	1,236	(303)	143	(160)
Corporation tax	8	-	(8)	-	(8)
Rebates	112	-	(112)	-	(112)
Total expenditure	7,811	8,782	971	17	988

Income

Network Rail generates passenger franchise revenue, revenue grants, freight income, property rental income and open access income from its operations.

Turnover was 1 per cent ahead of the expectations set out in the Delivery Plan update 2010 at £6,020m. The majority of Network Rail's income comes from fixed track access charges and the revenue grant. These charges are set by the independent rail regulator and are largely fixed across the five year regulatory settlement.

Income was higher than the determination due to electricity income and the favourable settlement of commercial claims offsetting lower grants received and poor freight performance, partly caused by the extreme winter weather. Income is discussed in more detail in Statement 6a: Analysis of Income.

Expenditure

Because Network Rail's income is largely fixed, achieving or out performing regulatory targets requires cost reductions. This includes ensuring that marginal costs are exceeded by marginal income.

Operating costs

Operating costs are difficult to reduce, as a large proportion of these are relatively fixed. Controllable opex was £108m higher than assumed in the PR08 but lower than expected in the Delivery Plan update 2010. There are a number of items that make up the difference

between PR08 and the 2010/11 performance including the variance in the starting position for the control period as Network Rail entered CP4 at a higher level of costs than assumed in the PR08. These are set out in Statement 7a.

Controllable opex was £66m (7 per cent) lower than the previous year after adjusting for changes in accounting classifications of pension costs and staff incentives. This change was largely a result of restricting average pay rises to less than inflation and headcount reductions.

Non-controllable opex was higher than the PR08 but in line with the Delivery Plan update 2010. It was less than 2009/10 mostly due to lower Electric Current for Traction (EC4T) costs.

Maintenance costs

The maintenance team built on last year's solid performance with further efficiencies during 2010/11. Costs for the year were £103m less than the PR08. Cost reductions have been achieved through a major reorganisation that allowed for the standardisation and optimisation of maintenance delivery, and improved the usage of unit cost information.

By better planning of works and better use of possessions, the maintenance team have been able to reduce costs. This includes better planning and control over overtime working. Overtime payments fell from £27m to £23m in the year. The reduction also includes increased productivity as the team delivered maintenance activities at lower unit rates. In addition over £275m (2010: £318m) of capital works were delivered.

New technologies and capital investment have also played a major part in reducing costs.

An example is the purchase of vegetation cutters which Network Rail mounted on road rail vehicles to undertake vegetation clearance. In a single shift the mechanical cutters clear over six times as much vegetation for 30 per cent of the cost compared to using hand held chainsaws.

Performance Regime

Train performance was badly affected by the severe weather during November and December 2010. The performance regime penalises Network Rail when the railway is not available for use, and this affected the income received from train operators and freight customers. This cost Network Rail over £50m this year and, when aggregated with incentives around minimising disruption caused by infrastructure works, resulted in a fall in performance related income and expense from £42m (income) in 2009/10 to £14m (expense) in 2010/11.

During 2010/11, better planning and rephasing of work resulted in fewer disruptive possessions saving more than £51m when compared to the cost assumed in the CP4 Delivery Plan. There is still a significant amount of the investment programme to be completed over the next three years, and it is crucial that we continue to work with train

operators and freight customers to minimise disruption.

Renewals

Network Rail is tasked by the ORR to maintain the quality of its assets, including stations and network capability, and to do so at an increasing level of efficiency. Network Rail considers the key to success to be the development of asset policies which help reduce whole-life costs while continuing to improve asset condition.

In the year, asset condition (as measured by the asset stewardship indicator) improved and levels of investment remained high. These were delivered more efficiently than last year and in comparison to the CP4 Delivery Plan.

Renewals expenditure was £368m less than assumed in the PR08. This was mainly due to the different profiles of expenditure between the PR08 and the latest outturn. Expenditure was less than the Delivery Plan update 2010 projected. This was due to the re-phasing of expenditure into future years of CP4. The latest forecast profile of capital expenditure for the control period is presented in the Delivery Plan 2011 update published February 2011.

Network Rail invested £2.2bn (2010: £2.2bn) in the year on renewing the railway network including £0.6bn on track.

Repeatable items such as the renewal of the existing network, form a key part of the efficiency challenge. Network Rail has been able to drive circa 16 per cent reduction in real terms in the cost of renewals over the last two years. This reduction has been made up of five per cent volume efficiency, six per cent from measurable unit costs and a further five per cent from other cost reductions.

This has been achieved by implementing revised asset policies and route asset management plans, introducing smarter working practices, and investment in equipment that enables us to carry out tasks faster, with less disruption and at a lower cost.

Asset management plans aim to provide the most efficient whole-life cost after taking into account route asset management policies. These plans define the maintenance and renewal work required to produce sustainable route outputs for the level of funding available.

Smarter working practices include the use of modular designs, which enable off-site construction. This saves money, requires shorter more predictable possessions and is inherently safer than traditional build methods.

An example of modular designs are the switches and crossing units which are factory assembled, tested and shipped to site ready to install without subsequent dismantling and reassembling.

This technology is expected to reduce the average replacement time for switches and crossings from 54 hours to eight hours, over the next three years. This will not only be more cost effective, but will increase network availability and reduce disruption.

By optimising the use of high output plant, such as the track laying machine we have been able to drive further efficiencies which are evidenced by reduced track unit costs (plain line unit costs fell by 11 per cent in the year in real terms, and switches and crossings renewals by 21 per cent in real terms). Such plant reduces the time it takes to replace track which increases network availability and reduces disruption to users of the railway.

Enhancements (Statement 3)

Network Rail continues to expand the railway network to meet the increased demand from rail users. Rail travel has never been more popular and capacity is becoming a constraint in some locations. The Comprehensive Spending Review has reconfirmed the vast majority of the enhancement programme set out in the regulatory settlement. Due to the current economic climate there has been some deferral of work into the next regulatory period, and some third party funded schemes have been cancelled.

Network Rail expects to spend around £12bn on enhancing the network across the control period, and this year spent £1.7bn on enhancements. This was £0.9bn less than planned largely because work was deferred to future years. However, we expect to meet all but five (one per cent) of the expected implementation dates for schemes that form part of the regulatory settlement. Schemes developed outside of the regulatory settlement, including third party enhancements, have been subject to the most change, due to the current economic climate and the impact of the Comprehensive Spending Review on third party funders. Our latest Delivery Plan update reduced expenditure on such enhancements by £1.1bn over the remainder of the five year regulatory period.

Statement 2: Regulatory Asset Base

The Regulatory Asset Base (RAB) has increased from £35.7bn to £38.6bn in the year as set out below:

	£bn
Opening RAB	35.7
Inflation	1.7
Renewals & enhancements	3.3
Ring Fenced Fund	(0.5)
Amortisation	(1.6)
Closing RAB	38.6

The method of calculating the RAB has become significantly more complex in CP4. The additional complexity is to allow the RAB to take account of deferring and bringing forward work and changes in the input price index. At the end of CP4 the calculation will also include an assessment of the non-delivery of outputs. The RAB is provisional until the end of the control period.

Statement 4: Net debt and financial ratios

Network Rail Limited is a company limited by guarantee and is the ultimate parent company of the Network Rail Group. Network Rail has no external shareholders and funds all investment by raising debt through its financing vehicle or by investing profits.

Ultimately the cost of all investment will be borne either by users of the railway or by government. In the shorter term, investment is financed by borrowing from the capital markets, primarily through the issuance of bonds.

The Group benefits from the financial indemnity mechanism (FIM) provided by the Secretary of State for Transport. This means that in the event of non-payment of financial cash flows by Network Rail, the United Kingdom Government would meet these obligations. The chance of that indemnity ever being called upon should remain remote given the stable capital structure and regulatory regime in which Network Rail operates.

Closing debt was £2.4bn lower than assumed in the regulatory determination. The main reason for this is the different scheduling of renewals and enhancement spend between Network Rail's plans and the PR08.

During the year ended 31st March 2011 Network Rail raised £1.8bn of bonds under the Debt Issuance Programme (DIP). These bonds comprised £750m of fixed rate sterling bonds and \$1.8bn of US dollar nominal bonds. Part of this new debt was used to pay back existing loans, whilst the remainder was used to invest in the railway infrastructure. As a result, net debt rose from £22.8bn to £24.5bn.

The movement in regulatory debt in the year is summarised below:

	£bn
Opening net debt	22.8
Total income	(6.0)
Total expenditure	6.1
Interest cash costs (incl. FIM fee)	0.9
Capital accretion	0.7
Closing net debt	24.5

Network Rail manages its interest and foreign exchange risk by using derivative financial instruments (hedges). Debt and interest charges are stated in these accounts at their hedged rate in accordance with the Regulatory Accounting Guidelines January 2011.

Can Network Rail afford this level of debt?

During CP4, provided we meet our financial targets, the business will generate enough funds from its operations to cover the interest expense. The value of debt to discounted future cash flows is at comparable levels to other regulated utilities.

Gearing: debt to regulatory asset base (RAB)

The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. This establishes whether the Group debt is at sustainable levels. The RAB is a regulatory funding mechanism that acts as a proxy for future discounted cash flows generated from the railway network.

The debt to RAB ratio for the year was 63.4 per cent (2010:63.9 per cent). At this level the business has a buffer to absorb rising costs.

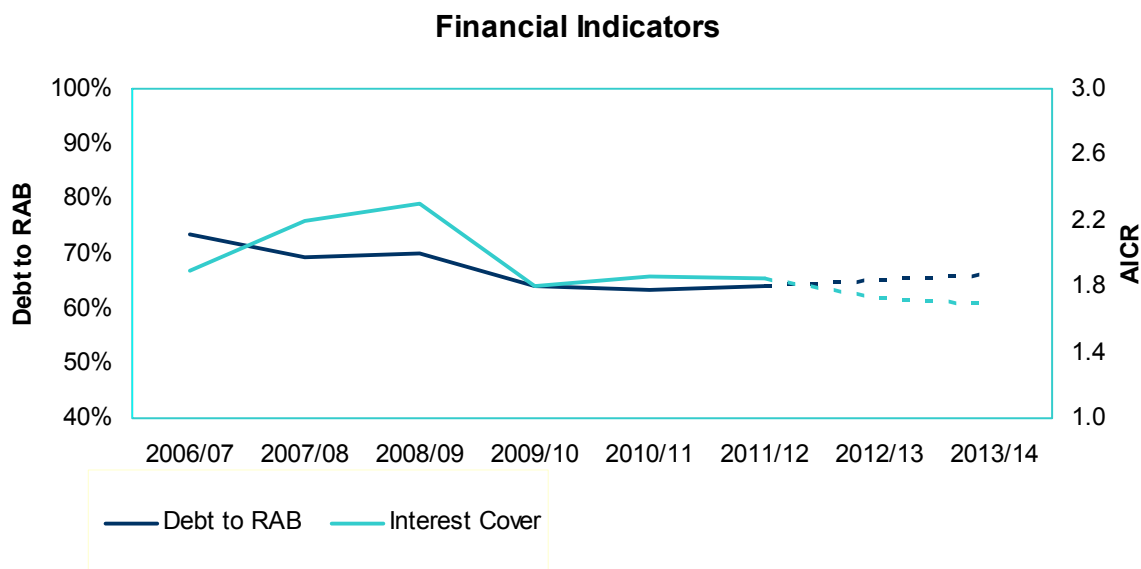
The ORR places regulatory limits on this gearing ratio. The gearing ratio is well within the Licence condition target of 70 per cent. Both the gearing ratio and the Licence condition target are set to rise over the next three years as Network Rail invests heavily in enhancing the rail infrastructure. By 2013/14 we expect this ratio to have risen to 66 per cent against the Licence condition target of 75 per cent.

Affordability: interest cover

The adjusted interest cover ratio (AICR) measures the Group's ability to pay interest on its debt after taking into account all running costs including steady state renewals. Network Rail's AICR for the year was 1.93 (2010:1.77), which is better than both the business plan and the ORR determination.

This demonstrates that the current level of interest payable is affordable as business

generated operational revenue is 93 per cent greater than the cash required to pay net financing costs.



Summary

In the last year we have made considerable efficiencies in the way we run our business. We are now much more confident that we can meet our efficiency targets in this five year regulatory period.

Whilst our performance was adversely affected by the severe weather, the state of the network remains good, and we are working hard to return to targeted levels of punctuality and reliability. Likewise the financial framework within which Network Rail operates remains stable and robust, even in difficult economic conditions.

There is still much work to do and we need to quicken the pace of investment delivery over the next year.

This next year may shape the future of the railway industry. Network Rail will devolve responsibility for decision-making to Route Managing Directors who will control significant businesses. This will provide a platform for new ways of working and partnerships with customers.

It is a time of great change for our Company and the whole rail industry, and Network Rail is in the vanguard of this transformative process. The performance we have delivered over the past year, together with a changed approach from the Company, will allow us to play our part in improving the railway for all its users and stakeholders.

It is against this background that we will meet the challenge: to focus on running a safe and reliable railway, to drive further efficiencies and to deliver the exciting improvements in the

infrastructure required to meet the demands of current and future generations of rail users.

The Directors' report and the regulatory financial statements were approved by the Board of Directors on 15th June 2011.

Signed on behalf of the Board of Directors

A handwritten signature in black ink, appearing to be 'DH', followed by a long horizontal line.

David Higgins (Director)

A handwritten signature in black ink, appearing to be 'P Butcher', with a stylized 'P' and 'B'.

Patrick Butcher (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 2011 and (save as otherwise provided in Condition 11 or the Regulatory Accounting Guidelines) 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 Regulatory Accounting Guidelines; (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 Regulatory Accounting Guidelines 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 Regulatory Accounting Guidelines;
- include narrative explaining the material variances from the previous year 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 Regulatory Accounting Guidelines 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 on the regulatory financial statements.

In accordance with the Regulatory Accounting Guidelines the statutory financial Statements are included as an attachment to 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 included for information only.

Independent Auditors' Report to the company and the ORR - PwC

Independent Auditor's report to the Office of Rail Regulation (the ORR, referred to as the "Regulator") and Network Rail Infrastructure Limited

We have audited the sections of the regulatory financial statements of Network Rail Infrastructure Limited (the "Company") for the year ended 31 March 2011 that are required to be audited, which comprise the Accounting Policies, Statement (separately for GB, England and Wales and Scotland and referred to collectively as "Statement") 1: Summary regulatory financial performance, Statement 2a: RAB – regulatory financial position, Statement 2b: RAB – reconciliation of expenditure, Statement 2c: RAB – Summary of movements, 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, Statement 6c: Analysis of income by operator, Statement 7a: Analysis of operating expenditure, Statement 7b: Analysis of operating expenditure by activity, Statement 7d: Cost of own work capitalised, Statement 8a (1): Summary analysis of maintenance expenditure, Statement 8a (2): Summary analysis of maintenance headcount by activity, Statement 9a: Summary analysis of renewals expenditure, Statement 10: Other information, and the related Appendices A: Reconciliation of RAB to Statutory Railway Network Fixed Assets 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 and E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure (hereafter referred to as the "regulatory financial statements to be audited"). As set out in the Regulatory Accounting Guidelines, we have not audited the other Statements contained within the regulatory financial statements. These regulatory financial statements to be audited have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Regulator, the Directors and the Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the regulatory financial statements and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the regulatory financial statements to be audited in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the regulatory financial statements to be audited' below, and having regard to the guidance contained in Audit 05/03 '*Reporting to Regulators of Regulated Entities*' 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.

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 requirement of Condition 11 of the Company's Licence dated 31 March 1994 as amended on 2 July 2004, 12 April 2007, 1 April 2009 and 31 March 2010 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our 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, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report or for the opinions we have formed.

Scope of the audit of the regulatory financial statements to be audited

An audit involves obtaining evidence about the amounts and disclosures in the regulatory financial statements to be audited sufficient to give reasonable assurance that the regulatory financial statements to be audited 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; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the regulatory financial statements. However, we 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, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the regulatory financial statements to be audited 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 are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

We read the other information contained in the regulatory financial statements, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the regulatory financial statements to be audited. The other information comprises the Directors' Review and the Statements not subject to audit.

Opinion on regulatory financial statements to be audited

In our opinion the regulatory financial statements to be audited:

- fairly present 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 on pages 24 and 25, the state of the Company's financial position at 31 March 2011 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.

Basis of preparation

Without modifying our opinion, we draw attention to the Statement of Accounting Policies which describes the basis of preparation of the regulatory financial statements. 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 ("IFRSs"). Financial information other than that prepared on the basis of IFRSs 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.

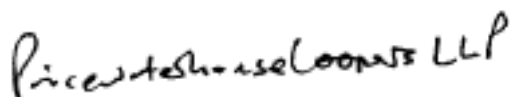
Opinion on other matters in accordance with the engagement contract

In our opinion the information given in the Directors' Review, and the Comments included below each Statement that is subject to audit, is consistent with the regulatory financial statements.

Other matters

The nature, form and content of regulatory financial statements are determined by the Regulator. It is not appropriate for us 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.

Our opinion on the regulatory financial statements to be audited is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2011 on which we reported on 8 June 2011, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "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. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are 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, we 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.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2nd August 2011

Notes:

1. The maintenance and integrity of the Network Rail Infrastructure Limited's web site is the responsibility of the Company's directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the regulatory financial statements since they were initially presented on the web sites.
2. Legislation in the United Kingdom governing the preparation and dissemination of statutory financial statements and regulatory financial statements may differ from legislation in other jurisdictions.

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 2011, which comprise:

Statement 8b – Analysis of maintenance expenditure by MDU;
Statement 9b – Detailed analysis of renewals expenditure;
Statement 12 – Analysis of efficiency (year on year efficiency measure);
Statement 13 – Volume Incentives;
Statement 14 – Unit Costs;
Statement 15 – Renewals unit costs and coverage;
Statement 16 – Renewals - track unit costs and volumes; and
Statement 17 – Other.

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 the Regulatory Accounting Guidelines (RAGs) dated January 2011, the Regulator may use a reporter to validate some of the information provided by Network Rail in the regulatory accounts. This complements the work of the auditors.

Work completed – basis of opinion

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

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

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, subject to the following areas of uncertainty.

In reviewing the accuracy of the data underlying the efficiency calculations, we have identified the following uncertainty:

- **Reported volumes.** The analysis of efficiency for renewals is based on renewals volume data where possible and includes a volume - and unit cost - based efficiency calculation relating to 42% of renewals expenditure overall. A review of the accuracy of the renewals volume reporting process has indicated that there is a risk that the renewal volumes may be up to five per cent over or understated. As a result of this uncertainty, renewals efficiency savings may be up to £50m higher or lower.

We have also considered whether the Network Rail's plans for the remainder of Control Period 4 are deliverable and sustainable. There is clearly a degree of uncertainty in the accuracy of future plans and any assessment requires judgment. We have identified the following specific issues:

- **Plain line track renewals.** The analysis of efficiency includes volume efficiency for track renewals. In 2010/11 Network Rail has delivered a lower level of track activity than planned. As a result, it will therefore need to deliver a larger volume of work in the remaining years of the Control Period, particularly for "Category 1" plain line track renewals, if Network Rail is to remain in line with its current Delivery Plan. We are concerned that this will be a significant challenge for Network Rail. There is risk that Network Rail will be unable to deliver the planned volumes. We consider that this may impact future costs which could lead to a reversal of savings achieved in the first two years of CP4. We have estimated that there is a risk that track renewals efficiency may have been overstated by up to £4.5m on an annualized basis, based on a 25% shortfall in delivering volume deferred from the 2010/11 Delivery Plan.
- **CP4 civils renewals volumes.** We consider that there is uncertainty with regard to the precise nature and the total volume of work that Network Rail will need to deliver for the remaining years of CP4. Network Rail may need to spend more than is currently planned. As a result, we consider this could lead to a reversal in the savings achieved in the first two years of CP4. We have estimated that there is a risk that civils renewals efficiency may be overstated by up to £7m on an annualized basis, based on a 20% reversal in the civils unit cost efficiency value.

Due to time constraints, we have been unable to complete our work to assess the deliverability and sustainability of non-volume based renewals.

The impact of uncertainty

Based on the specific estimates detailed above, we believe that there is uncertainty about the accuracy of data underlying the efficiency assumptions which could result in renewal efficiency savings being up to £50m higher or lower than reported. This suggests that total cumulative efficiency savings in Statement 12 could be between 12% and 14% compared to the reported figure of 13%.

There is also some uncertainty about the deliverability and sustainability of Network Rail's plans for the remainder of CP4. Based on the specific estimates detailed above, these could lead to

efficiency savings being overstated by up to £11.5m on an annualized basis.

Yours faithfully.

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

Stefan J Sanders

Named Independent Reporter

Ove Arup & Partners Ltd

22nd July 2011

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 Regulatory Accounting Guidelines issued by ORR under Condition 11 in January 2011.

The accounting policies adopted in presenting these regulatory financial statements are consistent with the Regulatory Accounting Guidelines ("RAGs") issued by the ORR in January 2011. These are consistent with those detailed in the Company's statutory financial Statements for the year ended 31 March 2011 which were approved by the Directors on 8th June 2011 and will be filed with the Registrar of Companies in July 2011 with the following exceptions:

Inflation

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

Regulatory Asset Base

The Regulatory Asset Base (RAB) has been calculated in accordance with the Regulatory Accounting Guidelines (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 to date 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 once the final CP4 position is agreed. This could result in adjustments to the RAB valuation which, as stated in the RAGs, remains provisional until the end of the control period.

Depreciation and amortisation

In the statutory accounts the average railway network fixed asset valuation is depreciated on a straight line basis over its estimated weighted average remaining useful economic life (currently 30 years). No depreciation is provided in these regulatory financial statements. The RAB is amortised as detailed in the ORR Periodic Review 2008. The opening RAB at 1 April 2010 is subject to amortisation based on the average long-run steady state capital expenditure as determined by the ORR.

Reactive works on structures and operational property

Certain reactive and cyclical works on structures and operational property are recorded in the Periodic Review 2008 as renewals. Therefore, in these regulatory financial statements they have been disclosed as renewals to give the most appropriate comparison with the Periodic Review 2008. In the statutory accounts, such amounts are recorded as maintenance within operating costs as they do not represent capital expenditure in accordance with IAS 16 'Property, Plant & Equipment'.

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 added 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. 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'.

Restatements of Controllable opex and Maintenance costs

The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased the cumulative Maintenance costs by £63m with a corresponding decrease in Controllable opex.

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, a proportion of Network Rail's expenditure on operating, maintaining, renewing and enhancing the network is directly attributable to specific geographical areas, including Scotland. Other costs are incurred centrally and have been allocated to Scotland using an appropriate driver, for example train miles.

This year, for the first time, Network Rail is required to produce "shadow" disaggregated financial information to provide indicative income and expenditure data for all operational and strategic routes. The method of disaggregation is included in Appendix F (which is not published).

Statement 1: GB Summary regulatory financial performance

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
Income	6,020	5,992	28	12,111	11,941	170
Expenditure						
Controllable opex	909	801	(108)	1,884	1,683	(201)
Non-controllable opex	419	395	(24)	874	766	(108)
Maintenance	1,068	1,171	103	2,252	2,335	83
Schedule 4 & 8	184	170	(14)	340	361	21
Renewals	2,234	2,602	368	4,647	5,786	1,139
Enhancements	1,338	2,281	943	2,675	4,142	1,467
Financing costs	1,539	1,379	(160)	2,850	2,567	(283)
Corporation tax	8	-	(8)	11	2	(9)
Rebates	112	-	(112)	112	-	(112)
Total expenditure	7,811	8,799	988	15,645	17,642	1,997

Note:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased the cumulative Maintenance costs by £63m with a corresponding decrease in Controllable opex.

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year and control period to date. In February 2010, Network Rail published its Delivery Plan 2010 Update which set out how Network Rail plans to deliver the outputs for the five year regulatory settlement at the appropriate cost. This has a different profile to the PR08 regulatory determination but allowed the business to live within the funding available. A comparison to the Delivery Plan 2010 Update is included in the Directors' Review.
- (2) Controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (3) Non-controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (4) Maintenance was lower than the PR08. This is set out in more detail in Statement 8a(1).
- (5) Schedule 4 & 8 was higher than the PR08. This is set out in more detail in Statement 10.
- (6) Renewals expenditure is set out in more detail in Statement 9a and is lower than the PR08 mostly due to re-profiling of expenditure within the control period.
- (7) Enhancements expenditure is set out in more detail in Statement 3 and is lower than the PR08 mostly due to re-profiling of expenditure within the control period.

Statement 1: GB Summary regulatory financial performance continued

- (8) Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

Statement 2a: GB RAB - regulatory financial position

In £m 2010/11 prices unless stated otherwise

A) Calculation of the GB RAB at 31 March 2011

	Actual	PR08	Difference
Opening RAB for the year (2006/07 prices)	33,171	34,358	(1,187)
Indexation to 2009/10 prices	2,558	2,648	(90)
Opening RAB for the year (2009/10 prices)	35,729	37,006	(1,277)
Indexation for the year	1,683	1,743	(60)
Opening RAB (2010/11 prices)	37,412	38,749	(1,337)
Adjustments for the actual capex outturn in CP3	-	-	-
Renewals (added to the RAB)	2,115	2,602	(487)
Enhancements (added to the RAB)	1,224	2,280	(1,056)
Renewals & Enhancements funded from RFF	(513)	(513)	-
Amortisation	(1,644)	(1,644)	-
Closing RAB at 31 March 2011	38,594	41,474	(2,880)

RAB Regulatory financial position - cumulative

B) Calculation of the cumulative GB RAB at 31 March 2011

	2009/10	2010/11	CP4 Total
Opening RAB (2010/11 prices)	35,874	37,412	35,874
Adjustments for the actual capex outturn in CP3	(59)	-	(59)
Renewals (added to the RAB)	2,397	2,115	4,512
Enhancements (added to the RAB)	1,313	1,224	2,537
Renewals & Enhancements funded from RFF	(469)	(513)	(982)
Amortisation	(1,644)	(1,644)	(3,288)
Closing RAB	37,412	38,594	38,594

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. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until the end of the control period and we will continue to have regular discussions around the treatment of capital expenditure with the ORR.
- (2) Renewals – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan update 2010 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan update 2010 is mostly due to re-profiling of expenditure within the control period (refer to Statement 9a).
- (3) Enhancements – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan update 2010 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan update 2010 is mostly due to re-profiling of expenditure within the control period (refer to Statement 3).

Statement 2b: GB RAB - reconciliation of expenditure

In £m 2010/11 prices unless stated otherwise

	Movements in 2010/11			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/11	Actual	PR08	Difference
Renewals						
Renewals in the determination			2,658	5,694	5,694	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	(64)	(5)	(69)	(133)	(120)	(13)
CP3 deferrals to CP4	14	10	24	235	206	29
Seven day railway	4	-	4	6	6	-
Renewals overheads	26	1	27	27	-	27
Adjusted PR08 determination (renewals)	(20)	6	2,644	5,829	5,786	43
Adjustments for the PR08 RAB roll forward policy						
Adjustments for non-delivery of outputs	-	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(463)	(44)	(507)	(1,215)	-	(1,215)
IOPI index adjustments	(36)	(5)	(41)	(122)	-	(122)
Adjustments for efficient over spend	30	1	31	32	-	32
25% retention of efficient over spend	(9)	-	(9)	(9)	-	(9)
Other adjustments	(3)	-	(3)	(3)	-	(3)
Total Renewals (added to the RAB)	(501)	(42)	2,115	4,512	5,786	(1,274)
Adjustment for inefficient overspend			65	65	-	65
Adjustment for non-delivery of outputs			-	-	-	-
Adjustment for capitalised financing			42	58	-	58
Adjustment for 25% retention of efficient over spend			9	9	-	9
Other adjustments			3	3	-	3
Total actual renewals expenditure (see Statement 9a)			2,234	4,647	5,786	(1,139)

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2010/11 prices unless stated otherwise

	Movements in 2010/11			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/11	Actual	PR08	Difference
Enhancements						
Enhancements in PR08			2,232	3,963	3,963	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	65	5	70	134	120	14
CP3 deferrals to CP4	(4)	4	-	79	76	3
Change in funding arrangements	(111)	(3)	(114)	(114)	-	(114)
Other adjustments	15	-	15	8	(17)	25
Adjusted PR08 determination (enhancements)	(35)	6	2,203	4,070	4,142	(72)
Adjustments for the PR08 RAB roll forward policy						
Adjustments for non-delivery of outputs	-	-	-	-	-	-
Adjustments for efficient over/under spend	5	-	5	-	-	-
25% retention of efficient over/under spend	(1)	-	(1)	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(1,154)	(65)	(1,219)	(1,992)	-	(1,992)
Other Adjustments	-	-	-	-	-	-
Total PR08 enhancements (added to the RAB)	(1,185)	(59)	988	2,078	4,142	(2,064)
Non PR08 Enhancements						
Non PR08 enhancements expenditure qualifying for capitalised financing	-	-	-	-	-	-
Non PR08 enhancements expenditure not qualifying for capitalised financing	236	-	236	459	-	459
Total Non PR08 enhancement expenditure	236	-	236	459	-	459
Adjustments for amortisation of Non-PR08 enhancements	-	-	-	-	-	-
Total non PR08 enhancements (added to the RAB)	236	-	236	459	-	459
Total enhancements (added to the RAB)	(949)	(59)	1,224	2,537	4,142	(1,605)
Adjustment for NR first £50m retention			3	9		9
Adjustment for efficient underspend			4	10		10
Adjustment for capitalised financing			59	75		75
Adjustment for 25% retention of efficient over/under spend			(1)	(2)		(2)
Other adjustments			-	(17)		(17)
Non PR08 expenditure			-	-		-
Third party funded schemes			392	720		720
Other adjustments			49	63		63
Total actual enhancement expenditure (see Statement 3)			1,730	3,395	4,142	(747)

Statement 2b: GB RAB - reconciliation of expenditure continued

In £m 2010/11 prices unless stated otherwise

Memo item 1 - renewals over/under spend log	2009/10	2010/11	CP4 to date
Net volume under/over spend (efficient)	-	-	-
Net volume overspend (inefficient)	-	-	-
Net unit cost over/under spend	-	-	-
Total over/under spend renewals	-	-	-

Memo item 2 - Outstanding non-capex RAB additions	2009/10	2010/11
Brought forward balance	4,613	4,472
Indexation for the year	13	211
Amortisation	(154)	(156)
Closing balance	4,472	4,527

Comments:

- (1) This schedule shows a reconciliation of the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB calculation is considered to be provisional until the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB (where relevant) for:
 - a. Non-delivery of outputs;
 - b. Deferrals within the control period and net deferrals into CP5;
 - c. Changes in input process as indicated by the IOPI index (see below);
 - d. Efficient underspend/ overspend; and
 - e. The effect of all of the above on capitalised financing.
- (3) IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until September 2011.

Statement 2c: Summary of RAB movements

In £m 2010/11 prices unless stated otherwise

A) Renewals RAB additions

Movements	2009/10	2010/11
PR08 determination	3,036	2,658
Deferrals from CP3	211	24
Delivery plan additions/reductions	2	31
Delivery plan re-classifications	(64)	(69)
Adjusted PR08 determination	3,185	2,644
Deferrals to later in CP4	(708)	(507)
IOPI index adjustment	(81)	(41)
Other adjustments	-	(3)
Adjustments for non-delivery of outputs	-	-
Adjustments for efficient over/under spend	1	22
Total additions to RAB in 2010/11	2,397	2,115

B) Enhancements RAB additions

Movements	2009/10	2010/11
PR08 determination	1,731	2,232
Deferrals from CP3	79	-
Delivery plan additions/reductions	(7)	(99)
Delivery plan re-classifications	64	70
Adjusted PR08 determination	1,867	2,203
Deferrals to later in CP4	(773)	(1,219)
Adjustments for non-delivery of outputs	-	-
Adjustments for efficient over/under spend	(4)	4
Other adjustments	-	-
PR08 determination additions to the RAB	1,090	988
Non-PR08 determination additions to the RAB	223	236
Total additions to RAB in 2010/11	1,313	1,224

Statement 3: GB Analysis of enhancement capital expenditure

In £m 2010/11 prices unless stated otherwise

	Actual	2010/11 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
A) Enhancements included in PR08						
Schemes covered by a tailored protocol or fixed price agreement						
Thameslink	504	640	136	916	1,206	290
Airdrie to Bathgate	87	56	(31)	227	215	(12)
Total Schemes covered by a tailored protocol or fixed price agreement	591	696	105	1,143	1,421	278
Funds						
CP5 development fund	8	3	(5)	15	6	(9)
NRDF (Network Rail Discretionary Fund)	31	53	22	107	105	(2)
Access for All	47	46	(1)	103	97	(6)
NSIP (National Stations Improvement Programme)	27	19	(8)	45	42	(3)
Performance fund (HLOS)	46	20	(26)	62	43	(19)
SFN (Strategic Freight Network)	7	50	43	9	81	72
Seven day railway fund	5	55	50	7	55	48
Safety and environment fund	22	17	(5)	54	118	64
Tier 3 project development	1	3	2	1	7	6
Small projects fund	4	4	-	5	9	4
Adjustment due to change of funding from DfT	(111)	-	111	(111)	-	111
Total Funds	87	270	183	297	563	266
Other PR08 funded schemes						
Intercity express programme	4	26	22	7	34	27
King's Cross	105	111	6	195	244	49
Birmingham New Street gateway project	1	3	2	1	4	3
East Coast Mainline overhead line enhancement	6	6	-	11	9	(2)
St Pancras - Sheffield line speed improvements	3	32	29	4	37	33
Nottingham Resignalling	1	1	-	1	1	-
North London Line capacity enhancement	29	21	(8)	72	42	(30)
GSM-R on freight routes	-	-	-	-	-	-
Station security	2	3	1	4	9	5
Crossrail and Reading	59	97	38	90	144	54
Platform Lengthening - Southern	26	73	47	35	102	67
Southern Capacity	2	8	6	3	11	8
ECML improvements	14	55	41	24	67	43
Power supply upgrade	22	25	3	22	37	15
Western Improvements Programme	16	44	28	28	78	50
WCML Committed Schemes	15	63	48	23	89	66
Midlands Improvement Programme	3	13	10	4	20	16
Northern Urban Centres - Leeds	1	29	28	1	37	36
Northern Urban Centres - Manchester	3	16	13	3	20	17
Trans Pennine Express linespeed improvements	1	6	5	1	7	6
Paisley Corridor Improvement	51	58	7	73	100	27
Borders railway	-	-	-	-	-	-
Glasgow to Kilmarnock	2	-	(2)	16	15	(1)
Unallocated Overheads	13	-	(13)	19	-	(19)
Total Other PR08 funded schemes	379	690	311	637	1,107	470
CP4 Delivery Plan	1,057	1,656	599	2,077	3,091	1,014
Schemes carried over from CP3						
WCRM	(4)	-	4	42	42	-
ERTMS	-	-	-	21	21	-
Cab fitment	-	-	-	13	13	-
Total Schemes carried over from CP3	(4)	-	4	76	76	-
Re-profiled expenditure due to programme deferral	-	625	625	-	975	975
Total PR08 funded enhancements (see Statement 2b)	1,053	2,281	1,228	2,153	4,142	1,989

Statement 3: GB Analysis of enhancement capital expenditure continued

In £m 2010/11 prices unless stated otherwise

	Actual	2010/11 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
B) Investments not included in PR08						
Government sponsored schemes						
Crossrail	47	-	(47)	87	-	(87)
Edinburgh - Glasgow Improvements (EGIP)	22	-	(22)	23	-	(23)
Electrification	5	-	(5)	5	-	(5)
Ayrshire Inverclyde	17	-	(17)	17	-	(17)
Other	6	-	(6)	10	-	(10)
Total Government sponsored schemes	97	-	(97)	142	-	(142)
Network Rail sponsored schemes (income generating)						
Acquisition of DB Schenker sites	6	-	(6)	6	-	(6)
Other income generating schemes	31	-	(31)	62	-	(62)
Adjustment for income generating schemes ⁽¹⁾	(4)	-	4	(4)	-	4
Total Network Rail sponsored schemes (income generating)	33	-	(33)	64	-	(64)
Network Rail sponsored schemes (cost saving)						
York Acquisition Thrall Site	-	-	-	9	-	(9)
London Enterprise House	8	-	(8)	8	-	(8)
Other cost saving schemes	1	-	(1)	2	-	(2)
Total Network Rail sponsored schemes (cost saving)	9	-	(9)	19	-	(19)
Schemes promoted by third parties						
Virgin West Coast Car Parks	10	-	(10)	39	-	(39)
Evergreen 3	71	-	(71)	95	-	(95)
SSWT promoted schemes	4	-	(4)	16	-	(16)
Edge Hill Depot	-	-	-	9	-	(9)
Etches Park Depot	-	-	-	21	-	(21)
EMT promoted schemes	4	-	(4)	9	-	(9)
Southampton Airport Parkway Car Park	7	-	(7)	10	-	(10)
Chiltern Moor Street	7	-	(7)	12	-	(12)
SSWT ticket gates and vending machine	-	-	-	17	-	(17)
Other schemes promoted by third parties ⁽²⁾	(6)	-	6	6	-	(6)
Total Schemes promoted by third parties	97	-	(97)	234	-	(234)
Enhancement expenditure not meeting ORR criteria						
Outperformance expenditure	5	-	(5)	17	-	(17)
Schemes with pay back period within the control period	12	-	(12)	14	-	(14)
Adjustment for income generating schemes and facility fees	32	-	(32)	32	-	(32)
Total enhancement expenditure not meeting ORR criteria	49	-	(49)	63	-	(63)
Total Network Rail funded enhancements (see Statement 1)	1,338	2,281	943	2,675	4,142	1,467
Third party funded (PAYG)	392	-	(392)	720	-	(720)
Total enhancements (see Statement 2b)	1,730	2,281	551	3,395	4,142	747

Statement 3: GB Analysis of enhancement capital expenditure continued

Notes:

- (1) Within Network Rail sponsored schemes (income generating) there is an adjustment for revenue received. For such schemes, the amount to be added to the RAB at the end of CP4 should be the expenditure less the total income received from that scheme during the control period.
- (2) Within other schemes promoted by third parties is an adjustment for revenue received from schemes promoted by third parties. For such schemes, the amount to be added to the RAB at the end of CP4 should be the expenditure less the total income received from that scheme during the control period.

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 of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this Statement.
- (2) The PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan update 2010 is Network Rail's latest response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. Variances to the Delivery Plan are mostly due to re-profiling of expenditure.
- (3) No PR08 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition. It also includes £111m received from the DfT relating to PR08 schemes previously being funded through CP4 RAB addition.
- (5) Enhancement expenditure by Network Rail in the year was £1,338m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£1,730m) less the PAYG schemes (£392m).
- (6) As noted in the 2010 regulatory financial statements "the split of capital expenditure on WCRM between Renewals and Enhancements is still being determined"; this has now been resolved.

Statement 4: GB Net debt and financial ratios

In £m cash prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
A) Reconciliation of net debt GB at 31 March 2011						
Opening net debt	22,819	24,087	1,268	20,890	21,267	377
Income						
Fixed charges	(912)	(882)	30	(1,694)	(1,684)	10
Total variable charges (including EC4T)	(691)	(669)	22	(1,410)	(1,323)	87
Grant income	(3,779)	(3,824)	(45)	(7,509)	(7,464)	45
Total other single till income	(638)	(617)	21	(1,224)	(1,203)	21
Other income	-	-	-	-	-	-
Total income	(6,020)	(5,992)	28	(11,837)	(11,674)	163
Expenditure						
Controllable operating expenditure	909	801	(108)	1,840	1,643	(197)
Non-controllable operating expenditure	419	395	(24)	853	749	(104)
Maintenance expenditure	1,068	1,171	103	2,199	2,282	83
Schedule 4&8	184	170	(14)	333	353	20
Renewals expenditure	2,234	2,602	368	4,538	5,643	1,105
Enhancement expenditure	1,338	2,281	943	2,616	4,059	1,443
Total expenditure	6,152	7,420	1,268	12,379	14,729	2,350
Financing						
Interest expenditure on nominal debt - FIM covered	511	700	189	1,085	1,383	298
Interest expenditure on IL debt - FIM covered	176	152	(24)	326	264	(62)
Accretion on IL debt - FIM covered	665	257	(408)	1,012	433	(579)
Expenditure on the FIM	187	187	-	360	357	(3)
Interest expenditure on nominal debt - unsupported	-	83	83	-	133	133
Interest expenditure on IL debt - unsupported	-	-	-	-	-	-
Accretion on IL debt - unsupported	-	-	-	-	-	-
Total financing costs	1,539	1,379	(160)	2,783	2,570	(213)
Corporation tax	8	-	(8)	16	2	(14)
Rebates	112	-	(112)	112	-	(112)
Other¹	(134)	-	134	133	-	(133)
Movement in net debt	1,657	2,807	1,150	3,586	5,627	2,041
Closing net debt	24,476	26,894	2,418	24,476	26,894	2,418

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

B) Financial Ratios

	2009/10	2010/11
Adjusted interest cover ratio (AICR)	1.77	1.93
FFO/interest	3.50	3.82
Net debt/RAB (gearing)	63.9%	63.4%
FFO/debt	13.9%	13.6%
RCF/debt	9.9%	10.0%

C) Average interest costs by category of debt

Average interest costs on nominal debt - FIM covered	5.4%	5.3%
Average interest costs on IL debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	0.8%	0.8%
Average interest costs on nominal debt - unsupported	n/a	n/a
Average interest costs on IL debt (excl. accretion) - unsupported	n/a	n/a

(1) Other

Movements in working capital	(2)	(134)
Other	265	-

Note:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased the cumulative Maintenance costs by £60m with a corresponding decrease in Controllable opex.

Comments:

- (1) This Statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The Statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part B) of this Statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines January 2011. As the Statement presents the reconciliation of net debt the figures are reported in cash prices.
- (2) Controllable opex is shown in more detail in Statement 7a.
- (3) Non-controllable opex is shown in more detail in Statement 7a.
- (4) Maintenance is shown in more detail in Statement 8a.
- (5) Schedule 4 & 8 is shown in more detail in Statement 10.
- (6) Renewals expenditure is shown in more detail in Statement 9a.
- (7) Enhancements expenditure is shown in more detail in Statement 3.

Statement 4: GB Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- (8) Financing – Network Rail paid interest on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). Network Rail did not issue debt outside of the FIM. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08.
- a) Interest expenditure on nominal debt – FIM covered was lower than the previous year due to a favourable settlement of a commercial claim.
 - b) Interest expenditure on IL debt – FIM covered has increased compared to FY09/10 because the average value of index linked debt was higher in the current year.
 - c) Accretion on IL debt – FIM covered was higher than in FY09/10 due to higher average index-linked debt holdings and a higher RPI at the dates used to calculate accretion.
- (9) Other – the value in 2009/10 includes a £265m adjustment to reflect changes in the definition of debt in the Regulatory Accounting Guidelines February 2010.
- (10) Financial ratios – ratios are defined as follows:

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

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

- (11) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 63.4 per cent which was in line with the Delivery Plan update 2010. The ORR imposes regulatory limits on this gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utilities face. The gearing ratio is well within the limit in the revised Licence condition of 70 per cent.
- (12) The adjusted interest cover ratio (AICR) measures the Group's ability to pay interest on its debt after taking into account all running costs including steady state renewals. Network Rail's AICR for the year was 1.93 (2010:1.77), which is better than both the business plan and the ORR determination. This demonstrates that the current level of interest payable is affordable as business generated operational revenue is 93 per cent greater than the cash required to pay net financing costs.

Statement 5: GB Financial Performance Statement

No Statement is included in the regulatory financial statements for the year ended 31 March 2011 as agreed with the ORR.

Statement 6a: GB Analysis of income

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Fixed charges	912	882	30	1,731	1,721	10
Variable charges						
Variable usage charge	137	133	4	280	265	15
Traction electricity charges net of costs	218	190	28	456	377	79
Electrification asset usage charge	8	8	0	17	16	1
Capacity charge	158	168	(10)	321	335	(14)
Station usage charges	-	-	-	-	-	-
Schedule 4 net income	167	170	(3)	364	361	3
Schedule 8 net income	3	-	3	6	-	6
Total gross variable charge income	691	669	22	1,444	1,354	90
Total franchised track access income	1,603	1,551	52	3,175	3,075	100
Grant income	3,779	3,825	(46)	7,684	7,635	49
Total franchised track access and grant income	5,382	5,376	6	10,859	10,710	149
Other single till income						
Property income	140	120	20	244	238	6
Freight income	43	78	(35)	97	154	(57)
Open access income	21	20	1	45	41	4
Stations income	372	338	34	743	678	65
Depots income	60	52	8	116	104	12
Other	2	8	(6)	7	16	(9)
Total other single till income	638	616	22	1,252	1,231	21
Total income	6,020	5,992	28	12,111	11,941	170

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under Schedule 4 are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under Schedule 8 are disclosed in Statement 10.

Comments:

- (1) This Statement shows a schedule of Network Rail's income compared to the PR08. Fixed charges and grants are largely fixed. The remaining income types are variable.
- (2) Fixed charges – these are higher than FY09/10 partly due to the phasing of fixed charges income specified in the PR08 and partly due to favourable settlement of commercial claims. The variance to the PR08 is mainly due to the favourable settlement of commercial claims.

Statement 6a: GB Analysis of income continued

- (3) Traction electricity charges – these charges are determined by the prevailing market electricity prices and thus Network Rail has minimal control over what these will be. In this respect traction electricity charges should be considered non-controllable income in the same manner that the traction electricity charges payable are classified as non-controllable opex. Income is lower than FY09/10 due to lower market electricity prices reducing the amounts Network Rail can charge on to TOCs.
- (4) Grant income – the variance arises from differences in the inflation assumed in the deed of grant with the Department for Transport and Transport Scotland compared to that used to uplift the PR08 from 06/07 prices. This is partly offset by the re-phasing of grant income from Transport Scotland.
- (5) Property income – favourable settlement of a one-off commercial claim has resulted in increased property income in comparison to the PR08 and prior year.
- (6) Freight income – extreme weather conditions during the current year adversely affected the freight income in comparison to the prior year, mainly due to increased performance compensation charges and reduced track access income. Under the new pricing structure for CP4, Network Rail would have to increase traffic by nearly 40 per cent to achieve the PR08 assumption.
- (7) Stations income is higher than the PR08 as income has proved strong despite the tough economic climate. Network Rail strives to provide those retail outlets and services that the passenger demands.
- (8) Depots income is higher than the PR08 due to additional investment framework income received in the year.
- (9) Analysis of income does not include the impact of rebates paid to stakeholders in the year. These are disclosed separately in Statement 1.

Statement 6c: GB Analysis of income by operator

In £m 2010/11 prices unless stated otherwise

Franchised Train Operating Companies

	Actual Income In Year	
	2009/10	2010/11
Arriva Trains Wales		
Variable Usage Charges	3.1	2.8
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	4.2	3.7
Fixed Charges	47.1	47.1
Station Long Term Charges	-	8.8
Station QX	-	0.4
Station Facility Charge	-	-
Other Charges	-	1.3
Total income	54.4	64.1

	Actual Income In Year	
	2009/10	2010/11
C2C		
Variable Usage Charges	2.1	1.5
Traction Electricity Charges	8.4	6.7
Electrification Asset Usage Charges	-	0.3
Capacity Charges	1.0	0.8
Fixed Charges	9.4	9.6
Station Long Term Charges	1.0	3.8
Station QX	-	0.2
Station Facility Charge	-	-
Other Charges	-	1.1
Total income	21.9	24.0

	Actual Income In Year	
	2009/10	2010/11
Chiltern		
Variable Usage Charges	1.0	1.2
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	2.1	1.7
Fixed Charges	16.8	17.1
Station Long Term Charges	-	4.1
Station QX	-	-
Station Facility Charge	-	-
Other Charges	-	0.1
Total income	19.9	24.2

Statement 6c: GB Analysis of income by operator continued

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
Cross Country		
Variable Usage Charges	9.4	7.5
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	11.5	11.1
Fixed Charges	64.9	66.2
Station Long Term Charges	1.0	0.7
Station QX	2.1	2.3
Station Facility Charge	-	-
Other Charges	-	-
Total income	88.9	87.8

	Actual Income In Year	
	2009/10	2010/11
East Coast Main Line Rail		
Variable Usage Charges	19.9	18.0
Traction Electricity Charges	22.0	16.6
Electrification Asset Usage Charges	1.0	1.1
Capacity Charges	5.2	5.0
Fixed Charges	44.0	43.5
Station Long Term Charges	1.0	7.3
Station QX	2.1	1.9
Station Facility Charge	-	-
Other Charges	-	2.4
Total income	95.2	95.8

	Actual Income In Year	
	2009/10	2010/11
East Midlands		
Variable Usage Charges	6.3	6.4
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	14.7	14.8
Fixed Charges	40.8	41.8
Station Long Term Charges	-	9.3
Station QX	-	0.1
Station Facility Charge	-	0.3
Other Charges	-	5.5
Total income	61.8	78.2

Statement 6c: GB Analysis of income by operator continued

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
First Capital Connect		
Variable Usage Charges	5.2	5.1
Traction Electricity Charges	28.3	22.8
Electrification Asset Usage Charges	1.0	0.9
Capacity Charges	12.6	12.6
Fixed Charges	27.2	26.8
Station Long Term Charges	2.1	11.3
Station QX	4.2	3.4
Station Facility Charge	-	0.4
Other Charges	-	1.6
Total income	80.6	84.9

	Actual Income In Year	
	2009/10	2010/11
First Great Western		
Variable Usage Charges	15.7	16.1
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	26.2	27.9
Fixed Charges	71.2	72.1
Station Long Term Charges	1.0	17.0
Station QX	2.1	2.3
Station Facility Charge	-	-
Other Charges	1.0	7.9
Total income	117.2	143.3

	Actual Income In Year	
	2009/10	2010/11
London Midland		
Variable Usage Charges	4.2	4.2
Traction Electricity Charges	19.9	11.8
Electrification Asset Usage Charges	1.0	0.6
Capacity Charges	13.6	12.6
Fixed Charges	30.4	31.2
Station Long Term Charges	1.0	10.4
Station QX	4.2	4.1
Station Facility Charge	-	0.2
Other Charges	-	2.8
Total income	74.3	77.9

Statement 6c: GB Analysis of income by operator continued

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
London Overground		
Variable Usage Charges	-	0.5
Traction Electricity Charges	2.1	2.4
Electrification Asset Usage Charges	-	-
Capacity Charges	-	0.2
Fixed Charges	4.2	4.1
Station Long Term Charges	-	2.0
Station QX	-	0.2
Station Facility Charge	-	-
Other Charges	-	0.5
Total income	6.3	9.9

	Actual Income In Year	
	2009/10	2010/11
Merseyrail		
Variable Usage Charges	1.0	0.6
Traction Electricity Charges	5.2	4.5
Electrification Asset Usage Charges	-	0.1
Capacity Charges	-	-
Fixed Charges	7.3	7.9
Station Long Term Charges	-	4.6
Station QX	-	-
Station Facility Charge	-	-
Other Charges	-	0.6
Total income	13.5	18.3

	Actual Income In Year	
	2009/10	2010/11
Northern		
Variable Usage Charges	4.2	3.6
Traction Electricity Charges	6.3	4.5
Electrification Asset Usage Charges	-	0.2
Capacity Charges	4.2	4.6
Fixed Charges	81.7	81.8
Station Long Term Charges	1.0	14.8
Station QX	2.1	2.6
Station Facility Charge	-	-
Other Charges	-	3.7
Total income	99.5	115.8

Statement 6c: GB Analysis of income by operator continued

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
National Express East Anglia		
Variable Usage Charges	9.4	8.5
Traction Electricity Charges	28.3	27.1
Electrification Asset Usage Charges	1.0	1.3
Capacity Charges	9.4	8.9
Fixed Charges	48.2	48.1
Station Long Term Charges	1.0	15.5
Station QX	2.1	2.3
Station Facility Charge	-	0.3
Other Charges	-	3.6
Total income	99.4	115.6

	Actual Income In Year	
	2009/10	2010/11
Scotrail		
Variable Usage Charges	7.3	6.0
Traction Electricity Charges	11.5	8.8
Electrification Asset Usage Charges	-	0.4
Capacity Charges	2.1	2.2
Fixed Charges	117.3	116.4
Station Long Term Charges	2.1	17.1
Station QX	3.1	3.1
Station Facility Charge	-	-
Other Charges	-	4.4
Total income	143.4	158.4

	Actual Income In Year	
	2009/10	2010/11
South Eastern		
Variable Usage Charges	7.3	6.9
Traction Electricity Charges	36.6	32.3
Electrification Asset Usage Charges	1.0	0.5
Capacity Charges	10.5	10.2
Fixed Charges	54.4	55.6
Station Long Term Charges	3.1	23.5
Station QX	5.2	4.6
Station Facility Charge	-	0.1
Other Charges	-	7.1
Total income	118.1	140.8

Statement 6c: GB Analysis of income by operator continued

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
South West Trains		
Variable Usage Charges	12.6	12.2
Traction Electricity Charges	45.0	37.2
Electrification Asset Usage Charges	1.0	0.6
Capacity Charges	6.3	5.5
Fixed Charges	58.6	59.2
Station Long Term Charges	1.0	21.2
Station QX	3.1	3.2
Station Facility Charge	4.2	5.9
Other Charges	1.0	6.5
Total income	132.8	151.5

	Actual Income In Year	
	2009/10	2010/11
Southern		
Variable Usage Charges	8.4	7.7
Traction Electricity Charges	33.5	33.1
Electrification Asset Usage Charges	1.0	0.5
Capacity Charges	14.7	13.9
Fixed Charges	42.9	43.3
Station Long Term Charges	2.1	14.8
Station QX	4.2	5.1
Station Facility Charge	-	0.2
Other Charges	-	1.4
Total income	106.8	120.0

	Actual Income In Year	
	2009/10	2010/11
Transpennine		
Variable Usage Charges	4.2	3.9
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	2.1	2.5
Fixed Charges	26.2	26.6
Station Long Term Charges	1.0	3.7
Station QX	2.1	1.2
Station Facility Charge	-	-
Other Charges	-	-
Total income	35.6	37.9

Statement 6c: GB Analysis of income by operator continued

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
Virgin West Coast		
Variable Usage Charges	25.1	24.7
Traction Electricity Charges	35.6	31.5
Electrification Asset Usage Charges	2.0	1.7
Capacity Charges	22.0	21.7
Fixed Charges	67.0	67.6
Station Long Term Charges	2.1	9.3
Station QX	4.2	4.7
Station Facility Charge	4.2	6.3
Other Charges	-	0.1
Total income	162.2	167.6

	Actual Income In Year	
	2009/10	2010/11
Consolidated Non-Franchised Train Operators		
Variable Usage Charges	3.1	3.6
Traction Electricity Charges	-	2.8
Electrification Asset Usage Charges	3.1	-
Capacity Charges	-	0.7
Fixed Charges	16.8	15.6
Station Long Term Charges	-	-
Station QX	-	-
Station Facility Charge	-	-
Other Charges	1.0	(1.4)
Total income	24.0	21.3

	Actual Income In Year	
	2009/10	2010/11
Consolidated Freight Operating Companies		
Variable Usage Charges	48.1	41.4
Traction Electricity Charges	6.2	5.1
Capacity Charges	4.2	3.6
Performance Regime	(9.4)	(12.3)
Coal Spillage Charge (inc Investment Charge)	2.1	4.5
Freight Connection Agreements and Other Income	3.1	0.6
Total income	54.3	42.9

Statement 6c: GB Analysis of income by operator continued

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, central adjustments and rounding. Amounts in these tables may not cast due to roundings.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) Station long term charges in 2009/10 did not include income from franchised stations.

Statement 7a: GB Analysis of operating expenditure

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
Controllable operating expenditure						
Signaller staff costs	217	186	(31)	444	377	(67)
Non-signaller staff costs	608	532	(76)	1,251	1,079	(172)
Staff incentives	48	-	(48)	113	-	(113)
Other employee related costs	89	59	(30)	213	119	(94)
Pensions	80	116	36	167	236	69
Consultants/contractors/agency	99	91	(8)	193	184	(9)
Insurance and claims	74	72	(2)	138	145	7
Accommodation, office, property	110	103	(7)	229	208	(21)
Information management	43	43	-	87	87	-
Other	245	101	(144)	400	266	(134)
Total gross controllable operating expenditure	1,613	1,303	(310)	3,235	2,701	(534)
Less:						
Other operating income	(162)	(96)	66	(328)	(195)	133
Own work capitalised	(542)	(406)	136	(1,023)	(823)	200
Total controllable operating expenditure	909	801	(108)	1,884	1,683	(201)
Non-controllable operating expenditure						
Traction electricity costs	227	205	(22)	496	407	(89)
Cumulo rates	91	98	7	169	176	7
British Transport Police costs	74	64	(10)	154	129	(25)
Rail Safety and Standards Board levy	9	9	-	17	18	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	18	19	1	38	36	(2)
Other i.e. IRAS fees)C f	-	-	-	-	-	-
Total non-controllable operating expenditure	419	395	(24)	874	766	(108)
Total operating expenditure	1,328	1,196	(132)	2,758	2,449	(309)

Note:

- (1) The 2009/10 pensions and staff incentives have been restated to reflect a reclassification of costs introduced in 2010/11 in order to create a like-for-like comparison. These changes have resulted in a decrease in the cumulative staff incentives figure of £18m and a decrease in pension expense of £45m. These costs are now reported within Maintenance.

Comments:

- (1) Network Rail's costs are categorised between operating costs (as shown in the above table) and maintenance (refer to Statement 8a). Costs are classified between controllable operating expenditure and non-controllable operating expenditure. ORR defines non-controllable in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines January 2011.

Statement 7a: GB Analysis of operating expenditure continued

- (2) Signaller staff costs – these costs are lower than the prior year (driven by headcount reductions) but higher than the PR08.
- (3) Non-signaller staff costs – these costs are lower than the prior year (driven by headcount reductions and restricting management pay awards) but higher than the PR08.
- (4) Staff incentives – these costs are lower than the prior year (driven by headcount reductions, movement of costs into maintenance as described in note (1), revisions of the payment mechanisms and lower than expected PPM targets) but higher than the PR08 which assumed no staff incentive payments.
- (5) Other employee related costs – variance to prior year is largely due to headcount reduction, implementation of a standardised expenses system, increased centralised booking of expense-generating activities and lower redundancy costs.
- (6) Insurance and claims – higher than FY09/10 due to lower Schedule 8 recoveries from third parties and the impact of the ORR fine for a Licence condition breach in respect of the integrated train planning system (ITPS) project.

(7)

Breakdown of Other controllable operating costs

	2010/11
Private Party Costs	64
Utilities	48
Other Plant	17
Telecoms Costs	14
Media Services / Campaigns	13
Vehicle Costs	10
Post / Printing / Reprographics	6
Other	73
Total	245

- (8) Own work capitalised – variance to last year due to more capex work being delivered in house to allow cost savings and greater flexibility. The higher value of own work capitalised compared to last year help explain why some of the other costs in the Statement are higher than the previous year.
- (9) Traction electricity costs – Network Rail has limited ability to influence non-controllable costs. Costs have decreased in comparison to the prior year due to cheaper market electricity prices. Costs are higher than the PR08 due to different assumptions made by the ORR regarding electricity rates.
- (10) British Transport Police – Network Rail has limited ability to influence non-controllable costs. Costs are higher than the PR08 due to different assumptions made by ORR regarding policing costs. Achieving the PR08 targets would necessitate cost savings that could endanger the travelling public.

Statement 8a (1): GB Summary analysis of maintenance expenditure

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽³⁾	PR08	Difference
Core Maintenance ⁽¹⁾						
Track	423	460	37	940	940	-
Structures	34	42	8	69	87	18
Signalling	170	137	(33)	358	278	(80)
Telecoms	66	69	3	139	145	6
Electrification	34	38	4	84	77	(7)
Plant & machinery	38	16	(22)	80	33	(47)
Operational property	-	-	-	-	-	-
Other	10	37	27	64	75	11
Total	775	799	24	1,734	1,635	(99)
Non-Core Maintenance						
Indirect costs	200	200	-	315	406	91
Other costs	93	172	79	203	294	91
Total	293	372	79	518	700	182
Total maintenance expenditure	1,068	1,171	103	2,252	2,335	83

Notes:

- (1) These costs only include direct costs
- (2) Maintenance expenditure includes spend on National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.
- (3) The 2009/10 costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This has resulted in an increase in the cumulative costs of £63m. These costs were previously reported within Controllable opex.

Comments:

- (1) Overall, Maintenance costs were 10 per cent lower than the previous year.
- (2) This was due to a number of factors including headcount savings arising from re-organising staff resources to optimise output, reduced use of contractors (specialist and labour only) and pay awards being less than that assumed in the PR08.
- (3) Other costs include re-organisation costs which were less than those incurred in the previous year.

Statement 8a (2): GB Summary analysis of maintenance headcount by activity

	2010/11
Core Maintenance	
Track	7,353
Structures	24
Signalling	3,898
Telecoms	666
Electrification	915
Plant & machinery	403
Operational property	330
Other	84
Total	13,673
Non-Core Maintenance	
Indirect headcount	2,959
Other headcount	-
Total	2,959
Total maintenance headcount	16,632

Notes:

- (1) The above data represents the headcount in the maintenance function. The information in Statement 8a (1) contains the company-wide maintenance costs some of which are not borne by the maintenance function. Therefore, the two sets of data are not comparable.
- (2) The above data reflects full time equivalent permanent staff.
- (3) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: GB Summary analysis of renewals expenditure

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Track	605	785	180	1336	1618	282
Structures	356	411	55	726	832	106
Signalling	373	486	113	803	1000	197
Telecoms	248	254	6	491	630	139
Electrification	78	161	83	163	317	154
Plant and machinery	99	91	(8)	192	271	79
Operational property	272	298	26	512	629	117
Other renewals						
West Coast CP3 rollover	54	-	(54)	102	105	3
Information management	87	89	2	179	181	2
Corporate offices	40	18	(22)	64	38	(26)
Discretionary investment	17	(6)	(23)	61	105	44
Other	5	15	10	18	60	42
Total	203	116	(87)	424	489	65
Total renewals expenditure	2,234	2,602	368	4,647	5,786	1,139

Comments:

- (1) Overall, the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost and is updated annually. Underspend shown in the above table is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan.
- (2) Track – expenditure in the year was lower due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. Expenditure was less than the prior year as fewer volumes were delivered and delivery was at a cheaper unit rate (see Statement 16).
- (3) Structures – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (4) Signalling – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan. Expenditure was less than the prior year due to more efficient production lowering unit rates (see Statement 15).
- (5) Telecoms – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (6) Electrification – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.

Statement 9a: GB Summary analysis of renewals expenditure continued

- (7) Plant & machinery – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (8) Operational property – increase in expenditure compared to the prior year was due to a higher number of projects being completed as expenditure was re-profiled in the control period to optimise efficient delivery.
- (9) Other – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan, notably the assumptions regarding the West Coast programme.

Note:

- (1) Renewals includes spend on National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.

Statement 10: GB Other information

In £m 2010/11 prices unless stated otherwise

	2010/11		
	Actual	PR08	Difference
A) Analysis of Schedule 4 & 8 income/(cost)			
- performance element			
Schedule 4			
Income	-		-
Cost	(128)		(128)
Net (cost)/ income	(128)	(170)	42
Schedule 8			
Income	35		35
Cost	(91)		(91)
Net cost	(56)	-	(56)
B) Net Impact of Schedule 4 & 8			
Schedule 4			
Access Charge Supplement Income	167	170	(3)
(Cost)/ income	(128)	(170)	42
Net income	39	-	39
Schedule 8			
Access Charge Supplement Income	3	-	3
Cost	(56)	-	(56)
Net cost	(53)	-	(53)
C) Opex memorandum account			
Opening balance			
Volume incentive	38		
Proposed Opex to be included in the CP5 expenditure allowance	(13)		
Total logged up items – opening balance	25		
In year			
Volume incentive	12		
Proposed Opex to be included in the CP5 expenditure allowance	(21)		
Total logged up items – in year movements	(9)		
Closing balance			
Volume incentive	50		
Proposed Opex to be included in the CP5 expenditure allowance	(34)		
Total logged up items – closing balance	16		

Statement 10: GB Other information continued

Notes:

- (1) No detailed PR08 numbers have been provided by the ORR for Table A).
- (2) The Opex memorandum account shown in Table C) records any under/over spends on cumulo rates, ORR fees, reporter fees and NSIP.

Comments:

- (1) Schedule 4 – Compensation payments for possessions were lower than the PR08 largely due to a different profile of renewals expenditure in the control period compared to that assumed in the PR08 (refer to Statement 9a). Schedule 4 costs were lower than the previous year due to lower delivery of renewals requiring possessions, better planning and less disruptive possessions.
- (2) Schedule 8 – Delay minutes were worse than prior year and the PR08 which manifested itself in additional schedule 8 costs. The extreme weather conditions in the year (the DfT has commented that the UK experienced its worst winter for 30 years) was the key reason for this.
- (3) In addition Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR08 are capitalised into the cost of those enhancements.

Statement 12: GB Analysis of efficiency (Real Economic Efficiency Measure)

In £m 2010/11 prices unless stated otherwise

	Controllable Opex	Maintenance	Renewals	Total (OMR)
2010/11				
Efficiency (£m)	67	138	252	457
Efficiency (%)	6.7%	11.3%	10.0%	10.0%
Cumulative				
Efficiency (£m)	33	164	432	629
Efficiency (%)	3.5%	13.3%	16.6%	13.2%

Comments:

- (1) The above table measures progress on the REEM (Real Economic Efficiency Measure). This is a measure of efficiency for which the principles have been agreed by the ORR and Network Rail. It is not the same as Network Rail's internal measure of efficiency, the CEM (Cost Efficiency Measure).
- (2) The REEM indicates the level of efficiency made in comparison to the CP3 exit point, ("the baseline"). The baseline is adjusted for inflation, volumes and additional outputs required in CP4 compared to CP3.
- (3) In their PR08 settlement, ORR set Network Rail the target of reducing controllable opex, maintenance and renewals costs by 21 per cent by the end of CP4.
- (4) This is the second year of the five year control period and the efficiencies achieved will be assessed against the target at the end of the control period. The position reported here indicates management's expectations with regards to the quantum of efficiencies achieved during 2010/11 and in the control period to date.
- (5) Measuring efficiencies requires judgements to be made particularly with regard to the sustainability of cost savings. We consider the key judgement in these accounts to be renewals scope efficiencies. Positive management action has included the development of asset policies which reduce the whole-life cost while continuing to improve asset condition. In reporting these efficiencies we place reliance on the asset policies, developed by Network Rail's engineers, as evidence of sustainability. In doing so we judge the work undertaken to be compliant with those asset policies and that evidence suggests that the condition of Network Rail's assets is not deteriorating.
- (6) The REEM methodology uses in-year inflation (November RPI) to uplift baseline prices (CP3 exit point). Therefore in FY09/10, the baselines in FY08/09 prices were uplifted by 0.3 per cent. In FY10/11 the FY09/10 baselines were uplifted by a further 4.71 per cent.
- (7) Controllable opex – savings in the year arose from headcount reductions and restricting pay awards to less than the weighted RPI.

Statement 12: GB Analysis of efficiency (Real Economic Efficiency Measure) continued

- (8) Maintenance - cost reductions have been achieved through a major reorganisation that allowed for the standardisation and optimisation of maintenance delivery and improved the usage of unit cost information. By better planning of works and better use of possessions, the maintenance team has been able to reduce costs. This includes better planning and control over overtime working. New technologies and capital investment have also played a major part in reducing costs. For example, Network Rail purchased vegetation cutters and mounted them on road rail vehicles to undertake vegetation clearance. The mechanical system is more effective than hand-held chain-saws. In a single shift the mechanical cutters clear over six times as much vegetation and save over 70 per cent on costs.
- (9) Renewals - this has been achieved by implementing revised asset management plans and route management policies, introducing smarter working practices, and investment in equipment that enables Network Rail to carry out tasks faster, with less disruption and at a lower cost. Asset management plans aim to provide the most efficient whole-life cost after taking into account route asset management policies. The plans define the maintenance and renewal work required to produce sustainable route outputs for the level of funding available. Smarter working practices include the use of modular designs, which are constructed off-site and placed into position. This cuts possession times, is less disruptive, less labour intensive and cheaper than traditional build methods. Another example of modular designs are the switches & crossing units which are factory assembled, tested and shipped to site ready to install without any dismantling and reassembling. This technology is expected to reduce the replacement time for switches and crossings from 54 hours to eight hours, over the next three years. This will not only be more cost effective, but will also increase network availability and reduce disruption. By optimising the use of high output plant, such as the track laying machine we have been able to drive further efficiencies which are evidenced by reduced track unit costs. Such plant reduces the time it takes to replace track which increases network availability and reduces disruption to users of the railway.
- (10) The reported efficiency is based on delivering work in line with the Delivery Plan.

Statement 13: GB Volume incentives

In £m 2010/11 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward	Outperformance reward - notes
Passenger train miles	50	300.13 m	282.66 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£6,521 m	£6,004 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	24.1 m	27.2 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	26,062 m	28,438 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	50					

Comment:

(1) Under the PR08 settlement Network Rail was allocated expenditure based on anticipated future network capacity in CP4. Demand growth could be higher than envisaged; therefore the PR08 makes provision to incentivise Network Rail to meet unanticipated increases in demand. The above table illustrates the targets Network Rail has to achieve to trigger these rewards. In the control period to date, the passenger train miles target was achieved resulting in volume incentive amounts of £50m being earned. Under the terms of the volume incentive mechanism the cash is paid in the first year of the next control period.

Statement 14: GB Maintenance unit costs

In £m 2010/11 prices unless stated otherwise

Ref	Description	Unit of Measure (unit)	2010/11 Unit Cost (£/unit)	2009/10 Unit Cost (£/unit)	Movement
MNT001	Manual Ultrasonic Inspection of Rail	Rail Mile	373	340	(33)
MNT002	Rail Changing	Rail Yard	173	115	(58)
MNT003	Manual Spot Re-sleepering	No. of Sleepers	193	178	(15)
MNT004	Plain Line Tamping	Track Mile	5,630	4,321	(1,309)
MNT005	Stoneblowing	Track Mile	2,665	3,955	1,290
MNT006	Manual Wet Bed Removal	No. of Bays	132	141	9
MNT008	S&C Unit Renewal	No. of S&C units	12,848	10,608	(2,240)
MNT010	Replacement of S&C Bearers	No. of S&C Bearers	310	221	(89)
MNT011	S&C Arc Weld Repair	No. of Repairs	533	708	175
MNT013	Level 1 Patrolling Track Inspection	Each	70	87	17
MNT015	Weld Repair of Defective Rail	No. of Repairs (weld)	466	513	47
MNT016	Installation of Pre-Fabricated IRJs	No. of Joints	1,653	1,429	(224)
MNT019	Manual Correction of Plain Line Track Geometry	Track Yards	16	19	3
MNT020	Manual Reprofilng of Ballast	Track Yards	3	4	1
MNT026	Replenishment of Ballast Train	Tonnes	19	18	(1)
MNT027	Maintenance of Rail Lubricators	Each	92	219	127
MNT077	Signs	Each	15	20	5
MNT050	Point End Routine Maintenance	Services	53	58	5
MNT051	Signals Routine Maintenance	Services	76	91	15
MNT052	Track Circuit Routine Maintenance	Services	55	54	(1)
MNT073	Drainage	Drainage Yards	7	7	-
MNT029	Replacement of Pads & Insulators	Sleepers	5	5	-

Statement 15: GB Renewals unit costs and coverage

In £m 2010/11 prices unless stated otherwise

Asset	Activity type	Unit cost 2010/11 £000/unit	Unit cost 2009/10 £000/unit	Activity costs reported 2010/11 £000s	Proportion of each asset total renewals spend %
Civils	701 Overbridge	1.69	3.21	20,086	5
	702 Underbridge	1.31	1.78	115,197	32
	703 Overbridge - Bridgeguard 3	2.73	2.99	17,113	5
	704 Footbridge	4.35	5.49	5,322	1
	705 Tunnel	0.74	1.01	13,073	4
	706 Culvert	2.38	3.04	5,567	2
	707 Retaining Wall	0.71	0.97	1,850	1
	708 Earthworks	0.18	0.27	68,904	19
Total				247,112	69
Signalling	101 - Re-signalling	194.52	200.53	179,063	48
	102 - Control Renewal	N/A	69.78	3,268	1
	103 – Interlocking renewal	102.77	N/A	18,741	5
	108 – Level crossing renewals – MCB Type	920.84	1087.50	18,459	5
	108 – Level crossing renewals – MCB Type with CCTV	N/A	N/A	-	-
Total				219,531	59
Telecoms	501 - Large concentrator	3.72	5.61	1	-
	502 – DOO CCTV	61.14	97.61	1,477	5
	503 – PETS/Level crossing	34.26	n/a	117	-
	504 – Small signal box concentrator	3.63	5.44	21	-
	506 – Customer Info system	6.09	8.79	10,230	26
	507 – Long line address system	n/a	n/a	n/a	n/a
Total				11,846	31

Statement 16: GB Renewals - track unit costs and volumes

In £m 2010/11 prices unless stated otherwise

A) Composite rate measures

Rate at 2010/11 prices	2010/11	2009/10	Difference* (%)
Plain line renewal (£ per metre)	260	292	11
S&C equivalent unit renewal (£000 per unit)	425	535	21

Note: *Negative numbers represent inefficiency

B) Track volumes

	2010/11	2009/10	Difference (%)
Plain line (composite km - ckm)	1,557	1,756	11
S&C (equivalent units - equ)	347	319	(9)

C) Plain line volumes

	2010/11 (%)	2009/10 (%)	Difference (%)
Cat 2 - Rerail both rails	10	14	(4)
Cat 4 - Rerail, resleeper (steel)	20	17	3
Cat 10 - Rerail, resleeper, reballast (ABC method)	5	3	2
Cat 11 - Rerail, resleeper, reballast (Traxcavate method)	24	32	(8)
Cat 14 - Rerail, resleeper, reballast, formation (traxcavate)	6	6	-
Other	35	28	7
Total	100	100	-

Comments:

- (1) Track unit costs – Plain line: there are a number of reasons for this decrease such as optimising the use of high output plant, e.g. the track laying machine to drive further efficiencies. This plant reduces the time it takes to replace track which increases network availability and reduces disruption to users of the railway.

Statement 16: GB Renewals - track unit costs and volumes continued

- (2) Track unit costs – S&C: there are a number of reasons for this decrease such as modular designs which are factory assembled, tested and shipped to site ready to install without any dismantling and reassembling. This technology is expected to reduce the replacement time for switches and crossings from 54 hours to 8 hours, over the next three years. This will not only be more cost effective, but will also increase network availability and reduce disruption.
- (3) Track volumes – plain line volumes were lower than FY09/10 and the Delivery Plan update 2010 partly due to adverse weather conditions leading to postponement of work. Also, towards the end of the year some high output plant was damaged in an accident which reduced planned volumes. This high output plant is vital in improving unit costs and so workbanks were re-planned to optimise efficient delivery.
- (4) Track volumes – S&C volumes were higher than FY09/10 due to re-phasing of workbanks.

Statement 17: GB Other Unit Costs

In £m 2010/11 prices unless stated otherwise

Impact on unit cost factors 2010/11

	2009/10 net unit cost	2010/11 gross unit cost	Indirect Cost Impact	Work mix impact	2010/11 net unit cost (like-for like)	Net efficiency (like- for-like) %
Plain line (£000/ckm)	292	260	-	-	260	11
S&C (£000/equ)	535	425	-	-	425	21

DISAGGREGATED FINANCIAL INFORMATION

Statement 1: England & Wales Summary regulatory financial performance

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
Income	5,431	5,418	13	10,935	10,791	144
Expenditure						
Controllable opex	826	728	(98)	1,708	1,529	(179)
Non-controllable opex	391	362	(29)	812	704	(108)
Maintenance	972	1,060	88	2,054	2,113	59
Schedule 4 & 8	173	160	(13)	317	339	22
Renewals	1,970	2,266	296	4,146	5,098	952
Enhancements	1,147	2,145	998	2,303	3,821	1,518
Financing costs	1,384	1,242	(142)	2,573	2,311	(262)
Corporation tax	7	-	(7)	10	2	(8)
Rebates	100	-	(100)	100	-	(100)
Total expenditure	6,970	7,963	993	14,023	15,917	1,894

Notes:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased the cumulative Maintenance costs by £57m with a corresponding decrease in Controllable opex.

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year and control period to date. In February 2010, Network Rail published its Delivery Plan update 2010 which set out how Network Rail plans to deliver the outputs for the five year regulatory settlement at the appropriate cost. This has a different profile to the PR08 regulatory determination but allowed the business to live within the funding available. A comparison to the Delivery Plan update 2010 is included in the Directors' Review.
- (2) Controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (3) Non-controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (4) Maintenance was lower than the PR08. This is set out in more detail in Statement 8a(1).
- (5) Schedule 4 & 8 was higher than the PR08. This is set out in more detail in Statement 10.
- (6) Renewals expenditure is set out in more detail in Statement 9a and is lower than the PR08 mostly due to re-profiling of expenditure within the control period.

Statement 1: England & Wales Summary regulatory financial performance continued

- (7) Enhancements expenditure is set out in more detail in Statement 3 and is lower than the PR08 mostly due to re-profiling of expenditure within the control period.
- (8) Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

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

In £m 2010/11 prices unless stated otherwise

A) Calculation of the England & Wales RAB at 31 March 2011

	Actual	PR08	Difference
Opening RAB for the year (2006/07 prices)	29,762	30,836	(1,074)
Indexation to 2009/10 prices	2,295	2,376	(81)
Opening RAB for the year (2009/10 prices)	32,057	33,212	(1,155)
Indexation for the year	1,510	1,564	(54)
Opening RAB (2010/11 prices)	33,567	34,776	(1,209)
Adjustments for the actual capex outturn in CP3	-	-	-
Renewals (added to the RAB)	1,864	2,266	(402)
Enhancements (added to the RAB)	1,039	2,144	(1,105)
Renewals & Enhancements funded from RFF	(459)	(459)	-
Amortisation	(1,448)	(1,448)	-
Closing RAB at 31 March 2011	34,563	37,279	(2,716)

RAB Regulatory financial position - cumulative

B) Calculation of the cumulative England & Wales RAB at 31 March 2011

	2009/10	2010/11	CP4 Total
Opening RAB (2010/11 prices)	32,202	33,567	32,202
Adjustments for the actual capex outturn in CP3	(66)	-	(66)
Renewals (added to the RAB)	2,162	1,864	4,026
Enhancements (added to the RAB)	1,138	1,039	2,177
Renewals & Enhancements funded from RFF	(421)	(459)	(880)
Amortisation	(1,448)	(1,448)	(2896)
Closing RAB	33,567	34,563	34,563

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. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until the end of the control period and we will continue to have regular discussions around the treatment of capital expenditure with the ORR.
- (2) Renewals – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan update 2010 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan update 2010 is mostly due to re-profiling of expenditure within the control period (refer to Statement 9a).
- (3) Enhancements – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan update 2010 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan update 2010 is mostly due to re-profiling of expenditure within the control period (refer to Statement 3).

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

In £m 2010/11 prices unless stated otherwise

	Movements in 2010/11			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/11	Actual	PR08	Difference
Renewals						
Renewals in the determination			2,323	5,011	5,011	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	(65)	(5)	(70)	(135)	(122)	(13)
CP3 deferrals to CP4	14	10	24	231	203	28
Seven day railway	4	-	4	6	6	-
Renewals overheads	26	1	27	27	-	27
Other adjustments	-	-	-	-	-	-
Adjusted PR08 determination (renewals)	(21)	6	2,308	5,140	5,098	42
Adjustments for the PR08 RAB roll forward policy						
Adjustments for non-delivery of outputs	-	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(393)	(37)	(430)	(1,030)	-	(1,030)
IOPI index adjustments	(30)	(5)	(35)	(108)	-	(108)
Adjustments for efficient over spend	27	1	28	32	-	32
25% retention of efficient over spend	(8)	-	(8)	(9)	-	(9)
Other adjustments	1	-	1	1	-	1
Total Renewals (added to the RAB)	(424)	(35)	1,864	4,026	5,098	(1,072)
Adjustment for inefficient overspend			64	64	-	64
Adjustment for non-delivery of outputs			-	-	-	-
Adjustment for capitalised financing			35	48	-	48
Adjustment for 25% retention of efficient over spend			8	9	-	9
Other adjustments			(1)	(1)	-	(1)
Total actual renewals expenditure (see Statement 9a)			1,970	4,146	5,098	(952)

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

In £m 2010/11 prices unless stated otherwise

	Movements in 2010/11			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/11	Actual	PR08	Difference
Enhancements						
Enhancements in PR08			2,096	3,641	3,641	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	65	5	70	135	121	14
CP3 deferrals to CP4	(4)	4	-	75	76	(1)
Change in funding arrangements	(111)	(3)	(114)	(114)	-	(114)
Other adjustments	2	(1)	1	(6)	(17)	11
Adjusted PR08 determination (enhancements)	(48)	5	2,053	3,731	3,821	(90)
Adjustments for the PR08 RAB roll forward policy						
Adjustments for non-delivery of outputs	-	-	-	-	-	-
Adjustments for efficient over/under spend	5	-	5	-	-	-
25% retention of efficient over/under spend	(1)	-	(1)	-	-	-
Adjustments relating to Funds	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(1,147)	(64)	(1,211)	(1,970)	-	(1,970)
Other Adjustments	-	-	-	-	-	-
Total PR08 enhancements (added to the RAB)	(1,191)	(59)	846	1,761	3,821	(2,060)
Non PR08 Enhancements						
Non PR08 enhancements expenditure qualifying for capitalised financing	-	-	-	-	-	-
Non PR08 enhancements expenditure not qualifying for capitalised financing	193	-	193	416	-	416
Total Non PR08 enhancement expenditure	193	-	193	416	-	416
Adjustments for amortisation of Non-PR08 enhancements	-	-	-	-	-	-
Total non PR08 enhancements (added to the RAB)	193	-	193	416	-	416
Total enhancements (added to the RAB)	(998)	(59)	1,039	2,177	3,821	(1,644)
Adjustment for NR first £50m retention			-	-		-
Adjustment for efficient underspend			4	10		10
Adjustments for non-delivery of outputs			-	-		-
Adjustment for capitalised financing			59	75		75
Adjustment for 25% retention of efficient over/under spend			(1)	(2)		(2)
Other adjustments			(2)	(19)		(19)
Non PR08 expenditure						
Third party funded schemes			388	699		699
Other adjustments			48	62		62
Total actual enhancement expenditure (see Statement 3)			1,535	3,002	3,821	(819)

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

In £m 2010/11 prices unless stated otherwise

Memo item 1 - renewals over/under spend log	2009/10	2010/11	CP4 to date
Net volume under/over spend (efficient)	-	-	-
Net volume overspend (inefficient)	-	-	-
Net unit cost over/under spend	-	-	-
Total over/under spend renewals	-	-	-

Memo item 2 - Outstanding non-capex RAB additions	2009/10	2010/11
Brought forward balance	4,129	4,003
Indexation for the year	12	189
Amortisation	(138)	(140)
Closing balance	4,003	4,052

Comments:

- (1) This schedule shows a reconciliation of the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB calculation is considered to be provisional until the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB (where relevant) for:
 - a. Non-delivery of outputs;
 - b. Deferrals within the control period and net deferral into CP5;
 - c. Changes in input process as indicated by the IOPI index (see below);
 - d. Efficient underspend/ overspend; and
 - e. The effect of all of the above on capitalised financing.
- (3) IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until September 2011.

Statement 2c: England & Wales Summary of RAB movements

In £m 2010/11 prices unless stated otherwise

	2009/10	2010/11
PR08 determination	2,688	2,323
Deferrals from CP3	207	24
Delivery plan additions/reductions	2	31
Delivery plan re-classifications	(65)	(70)
Adjusted PR08 determination	2,832	2,308
Deferrals to later in CP4	(600)	(430)
IOPI index adjustment	(73)	(35)
Other adjustments	-	-
Adjustments for non-delivery of outputs	-	-
Adjustments for efficient over/under spend	3	21
Total additions to RAB in 2010/11	2,162	1,864

B) Enhancements RAB additions

Movements

	2009/10	2010/11
PR08 determination	1,545	2,096
Deferrals from CP3	75	-
Delivery plan additions/reductions	(7)	(113)
Delivery plan re-classifications	65	70
Adjusted PR08 determination	1,678	2,053
Deferrals to later in CP4	(759)	(1,211)
Adjustments for non-delivery of outputs	-	-
Adjustments for efficient over/under spend	(4)	4
Other adjustments	-	-
PR08 determination additions to the RAB	915	846
Non-PR08 determination additions to the RAB	225	193
Total additions to RAB in 2010/11	1,138	1,039

Statement 3: England & Wales Analysis of enhancement capital expenditure

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference
A) Enhancements included in PR08						
Schemes covered by a tailored protocol or fixed price agreement						
Thameslink	504	640	136	916	1,206	290
Total Schemes covered by a tailored protocol or fixed price agreement	504	640	136	916	1,206	290
Funds						
CP5 development fund	8	3	(5)	15	6	(9)
NRDF (Network Rail Discretionary Fund)	31	53	22	107	105	(2)
Access for All	47	46	(1)	103	97	(6)
NSIP (National Stations Improvement Programme)	27	19	(8)	45	42	(3)
Performance fund (HLOS)	46	20	(26)	62	43	(19)
SFN (Strategic Freight Network)	7	50	43	9	81	72
Seven day railway fund	5	55	50	7	55	48
Safety and environment fund	22	17	(5)	54	118	64
Adjustment due to change of funding from DfT	(111)	-	111	(111)	-	111
Total Funds	82	263	181	291	547	256
Other PR08 funded schemes						
Intercity express programme	4	26	22	7	34	27
King's Cross	105	111	6	195	244	49
Birmingham New Street gateway project	1	3	2	1	4	3
East Coast Mainline overhead line enhancement	6	6	-	11	9	(2)
St Pancras - Sheffield line speed improvements	3	32	29	4	37	33
Nottingham Resignalling	1	1	-	1	1	-
North London Line capacity enhancement	29	21	(8)	72	42	(30)
GSM-R on freight routes	-	-	-	-	-	-
Station security	2	3	1	4	9	5
Crossrail and Reading	59	97	38	90	144	54
Platform Lengthening - Southern	26	73	47	35	102	67
Southern Capacity	2	8	6	3	11	8
ECML improvements	14	55	41	24	67	43
Power supply upgrade	22	25	3	22	37	15
Western Improvements Programme	16	44	28	28	78	50
WCML Committed Schemes	15	63	48	23	89	66
Midlands Improvement Programme	3	13	10	4	20	16
Northern Urban Centres - Leeds	1	29	28	1	37	36
Northern Urban Centres - Manchester	3	16	13	3	20	17
Trans Pennine Express linespeed improvements	1	6	5	1	7	6
Unallocated Overheads	11	-	(11)	17	-	(17)
Total Other PR08 funded schemes	324	632	308	546	992	446
CP4 Delivery Plan	910	1535	625	1753	2745	992
Schemes carried over from CP3						
WCRM	(4)	-	4	42	42	-
ERTMS	-	-	-	18	21	3
Cab fitment	-	-	-	12	13	1
Total Schemes carried over from CP3	(4)	-	4	72	76	4
Re-profiled expenditure due to programme deferral	-	610	610	-	1,000	1,000
Total PR08 funded enhancements (see Statement 2b)	906	2,145	1,239	1,825	3,821	1,996

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

In £m 2010/11 prices unless stated otherwise

	Actual	2010/11 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
B) Investments not included in PR08						
Government sponsored schemes						
Crossrail	47	-	(47)	87	-	(87)
Electrification	5	-	(5)	5	-	(5)
Other	4	-	(4)	9	-	(9)
Total Government sponsored schemes	56	-	(56)	101	-	(101)
Network Rail sponsored schemes (income generating)						
Acquisition of DB Schenker sites	5	-	(5)	5	-	(5)
Other income generating schemes	30	-	(30)	61	-	(61)
Adjustment for income generating schemes ⁽¹⁾	(4)	-	4	(4)	-	4
Total Network Rail sponsored schemes (income generating)	31	-	(31)	62	-	(62)
Network Rail sponsored schemes (cost saving)						
York Acquisition Thrall Site	-	-	-	9	-	(9)
London Enterprise House	8	-	(8)	8	-	(8)
Other cost saving schemes	1	-	(1)	2	-	(2)
Total Network Rail sponsored schemes (cost saving)	9	-	(9)	19	-	(19)
Schemes promoted by third parties						
Virgin West Coast Car Parks	10	-	(10)	39	-	(39)
Evergreen 3	71	-	(71)	95	-	(95)
SSWT promoted schemes	4	-	(4)	16	-	(16)
Edge Hill Depot	-	-	-	9	-	(9)
Etches Park Depot	-	-	-	21	-	(21)
EMT promoted schemes	4	-	(4)	9	-	(9)
Southampton Airport Parkway Car Park	7	-	(7)	10	-	(10)
Chiltern Moor Street	7	-	(7)	12	-	(12)
SSWT ticket gates and vending machine	-	-	-	17	-	(17)
Other schemes promoted by third parties ⁽²⁾	(6)	-	6	6	-	(6)
Total Schemes promoted by third parties	97	-	(97)	234	-	(234)
Enhancement expenditure not meeting ORR criteria						
Outperformance expenditure	4	-	(4)	16	-	(16)
Schemes with pay back period within the control period	12	-	(12)	14	-	(14)
Adjustment for income generating schemes and facility fees	32	-	(32)	32	-	(32)
Total enhancement expenditure not meeting ORR criteria	48	-	(48)	62	-	(62)
Total Network Rail funded enhancements (see Statement 1)	1,147	2,145	998	2,303	3,821	1,518
Third party funded (PAYG)	388	-	(388)	699	-	(699)
Total enhancements (see Statement 2b)	1,535	2,145	610	3,002	3,821	819

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

Notes:

- (1) Within Network Rail sponsored schemes (income generating) there is an adjustment for revenue received. For such schemes, the amount to be added to the RAB at the end of CP4 should be the expenditure less the total income received from that scheme during the control period.
- (2) Within other schemes promoted by third parties is an adjustment for revenue received from schemes promoted by third parties. For such schemes, the amount to be added to the RAB at the end of CP4 should be the expenditure less the total income received from that scheme during the control period.

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 of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this Statement.
- (2) The PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan update 2010 is Network Rail's latest response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. Variances to the Delivery Plan are mostly due to re-profiling of expenditure.
- (3) No PR08 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition. It also includes £111m received from the DfT relating to PR08 schemes previously being funded through CP4 RAB addition.
- (5) Enhancement expenditure by Network Rail in the year was £1,147m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£1,535m) less the PAYG schemes (£388m).
- (6) As noted in the 2010 regulatory financial statements "the split of capital expenditure on WCRM between Renewals and Enhancements is still being determined"; this has now been resolved and the negative value represents an update to the 2010 position.

Statement 4: England & Wales Net debt and financial ratios

In £m cash prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
A) Reconciliation of net debt						
England & Wales at 31 March 2011						
Opening net debt	20,521	21,666	1,145	18,809	19,149	340
Income						
Fixed charges	(794)	(763)	31	(1,466)	(1,457)	9
Total variable charges (including EC4T)	(652)	(631)	21	(1,333)	(1,249)	84
Grant income	(3,395)	(3,459)	(64)	(6,761)	(6,743)	18
Total other single till income	(590)	(565)	25	(1,127)	(1,101)	26
Other income	-	-	-	-	-	-
Total income	(5,431)	(5,418)	13	(10,687)	(10,550)	137
Expenditure						
Controllable operating expenditure	826	728	(98)	1,668	1,493	(175)
Non-controllable operating expenditure	391	362	(29)	793	688	(105)
Maintenance expenditure	972	1,060	88	2,005	2,065	60
Schedule 4&8	173	160	(13)	311	332	21
Renewals expenditure	1,970	2,266	296	4,048	4,972	924
Enhancement expenditure	1,147	2,145	998	2,252	3,747	1,495
Total expenditure	5,479	6,721	1,242	11,077	13,297	2,220
Financing						
Interest expenditure on nominal debt - FIM covered	460	630	170	979	1,245	266
Interest expenditure on IL debt - FIM covered	158	137	(21)	294	238	(56)
Accretion on IL debt - FIM covered	598	231	(367)	913	390	(523)
Expenditure on the FIM	168	168	-	325	321	(4)
Interest expenditure on nominal debt - unsupported	-	76	76	-	120	120
Interest expenditure on IL debt - unsupported	-	-	-	-	-	-
Accretion on IL debt - unsupported	-	-	-	-	-	-
Total financing costs	1,384	1,242	(142)	2,511	2,314	(197)
Corporation tax	7	-	(7)	15	2	(13)
Rebates	100	-	(100)	100	-	(100)
Other¹	(121)	-	121	114	-	(114)
Movement in net debt	1,418	2,545	1,127	3,130	5,063	1,933
Closing net debt	21,939	24,211	2,272	21,939	24,212	2,273

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

In £m cash prices unless stated otherwise

B) Financial Ratios

	2009/10	2010/11
Adjusted interest cover ratio (AICR)	1.77	1.94
FFO/interest	3.46	3.78
Net debt/RAB (gearing)	64.0%	63.5%
FFO/debt	13.8%	13.5%
RCF/debt	9.8%	10.0%

C) Average interest costs by category of debt

Average interest costs on nominal debt - FIM covered	5.4%	5.3%
Average interest costs on IL debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	0.8%	0.8%
Average interest costs on nominal debt - unsupported	N/A	N/A
Average interest costs on IL debt (excl. accretion) - unsupported	N/A	N/A

⁽¹⁾ Other

Movements in working capital	(2)	(121)
Other	238	-

Note:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased the cumulative Maintenance costs by £54m with a corresponding decrease in Controllable opex

Comments:

- (1) This Statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The Statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part B) of this Statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines January 2011. As the Statement presents the reconciliation of net debt the figures are reported in cash prices.
- (2) Controllable opex is shown in more detail in Statement 7a.
- (3) Non-controllable opex is shown in more detail in Statement 7a.
- (4) Maintenance is shown in more detail in Statement 8a.
- (5) Schedule 4 & 8 is shown in more detail in Statement 10.
- (6) Renewals expenditure is shown in more detail in Statement 9a.
- (7) Enhancements expenditure is shown in more detail in Statement 3.

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

In £m cash prices unless stated otherwise

- (8) Financing – Network Rail paid interest on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). Network Rail did not issue debt outside of the FIM. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08.
- Interest expenditure on nominal debt – FIM covered was lower than the previous year due to a favourable settlement of a commercial claim.
 - Interest expenditure on IL debt – FIM covered has increased compared to FY09/10 because the average value of index linked debt was higher in the current year.
 - Accretion on IL debt – FIM covered was higher than in FY09/10 due to higher average index-linked debt holdings and a higher RPI at the dates used to calculate accretion.
- (9) Other – the value in 2009/10 includes a £238m adjustment to reflect changes in the definition of debt in the Regulatory Accounting Guidelines February 2010.
- (10) Financial ratios – ratios are defined as follows:

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

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

- (11) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 63.5 per cent which was in line with the Delivery Plan update 2010. The ORR imposes regulatory limits on this gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utilities face. The gearing ratio is well within the limit in the revised Licence condition of 70 per cent.
- (13) The adjusted interest cover ratio (AICR) measures the Group's ability to pay interest on its debt after taking into account all running costs including steady state renewals. Network Rail's AICR England & Wales for the year was 1.94 (2010:1.77), which is better than both the business plan and the ORR determination. This demonstrates that the current level of interest payable is affordable as business generated operational revenue is 94 per cent greater than the cash required to pay net financing costs.

Statement 5: England & Wales Financial Performance Statement

No Statement is included in the regulatory financial statements for the year ended 31 March 2011 as agreed with the ORR.

Statement 6a: England & Wales Analysis of income

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Fixed charges	794	764	30	1,498	1,488	10
Variable charges						
Variable usage charge	126	123	3	257	245	12
Traction electricity charges net of costs	207	178	29	431	354	77
Electrification asset usage charge	8	7	1	16	15	1
Capacity charge	153	163	(10)	311	325	(14)
Station usage charges	-	-	-	-	-	-
Schedule 4 net income	155	160	(5)	344	340	4
Schedule 8 net income	3	-	3	6	-	6
Total gross variable charge income	652	631	21	1,365	1,279	86
Total franchised track access income	1,446	1,395	51	2,863	2,767	96
Grant income	3,395	3,459	(64)	6,919	6,897	22
Total franchised track access and grant income	4,841	4,854	(13)	9,782	9,664	118
Other single till income						
Property income	133	113	20	227	225	2
Freight income	36	68	(32)	85	134	(49)
Open access income	21	20	1	45	41	4
Stations income	344	309	35	686	620	66
Depots income	54	46	8	103	92	11
Other	2	8	(6)	7	15	(8)
Total other single till income	590	564	26	1,153	1,127	26
Total income	5,431	5,418	13	10,935	10,791	144

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under Schedule 4 are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under Schedule 8 are disclosed in Statement 10.

Comments:

- (1) This Statement shows a schedule of Network Rail's income compared to the PR08. Fixed charges and grants are largely fixed. The remaining income types are variable.
- (2) Fixed charges – these are higher than FY09/10 partly due to the phasing of fixed charges income specified in the PR08 and partly due to favourable settlement of commercial claims. The variance to the PR08 is mainly due to the favourable settlement of commercial claims.

Statement 6a: England & Wales Analysis of income continued

- (3) Traction electricity charges – these charges are determined by the prevailing market electricity prices and thus Network Rail has minimal control over what these will be. In this respect traction electricity charges should be considered non-controllable income in the same manner that the traction electricity charges payable are classified as non-controllable opex. Income is lower than FY09/10 due to lower market electricity prices reducing the amounts Network Rail can charge on to TOCs.
- (4) Grant income – the variance arises from differences in the inflation assumed in the deed of grant with the Department for Transport compared to that used to uplift the PR08 from 06/07 prices.
- (5) Property income – favourable settlement of a one-off commercial claim has resulted in increased property income in comparison to the PR08 and prior year.
- (6) Freight income – extreme weather conditions during the current year adversely affected the freight income in comparison to the prior year, mainly due to increased performance compensation charges and reduced track access income. Under the new pricing structure for CP4, Network Rail would have to increase traffic by nearly 40 per cent to achieve the PR08 assumption.
- (7) Stations income is higher than the PR08 as income has proved strong despite the tough economic climate. Network Rail strives to provide those retail outlets and services that the passenger demands.
- (8) Depots income is higher than the PR08 due to additional investment framework income received in the year.
- (9) Analysis of income does not include the impact of rebates paid to stakeholders in the year. These are disclosed separately in Statement 1.

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

In £m 2010/11 prices unless stated otherwise

Franchised Train Operating Companies

	Actual Income In Year	
	2009/10	2010/11
Arriva Trains Wales		
Variable Usage Charges	3.1	2.8
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	4.2	3.7
Fixed Charges	47.1	47.1
Station Long Term Charges	-	8.8
Station QX	-	0.4
Station Facility Charge	-	-
Other Charges	-	1.3
Total income	54.4	64.1

	Actual Income In Year	
	2009/10	2010/11
C2C		
Variable Usage Charges	2.1	1.5
Traction Electricity Charges	8.4	6.7
Electrification Asset Usage Charges	-	0.3
Capacity Charges	1.0	0.8
Fixed Charges	9.4	9.6
Station Long Term Charges	1.0	3.8
Station QX	-	0.2
Station Facility Charge	-	-
Other Charges	-	1.1
Total income	21.9	24.0

	Actual Income In Year	
	2009/10	2010/11
Chiltern		
Variable Usage Charges	1.0	1.2
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	2.1	1.7
Fixed Charges	16.8	17.1
Station Long Term Charges	-	4.1
Station QX	-	-
Station Facility Charge	-	-
Other Charges	-	0.1
Total income	19.9	24.2

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

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
Cross Country		
Variable Usage Charges	9.4	6.9
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	10.5	10.5
Fixed Charges	64.9	66.2
Station Long Term Charges	1.0	0.7
Station QX	2.1	2.1
Station Facility Charge	-	-
Other Charges	-	-
Total income	87.9	86.4

	Actual Income In Year	
	2009/10	2010/11
East Coast Main Line Rail		
Variable Usage Charges	17.8	15.7
Traction Electricity Charges	19.9	15.0
Electrification Asset Usage Charges	1.0	1.0
Capacity Charges	4.2	4.4
Fixed Charges	44.0	43.5
Station Long Term Charges	1.0	6.3
Station QX	1.1	1.6
Station Facility Charge	-	-
Other Charges	-	2.1
Total income	89.0	89.6

	Actual Income In Year	
	2009/10	2010/11
East Midlands		
Variable Usage Charges	6.3	6.4
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	14.7	14.8
Fixed Charges	40.8	41.8
Station Long Term Charges	-	9.3
Station QX	-	0.1
Station Facility Charge	-	0.3
Other Charges	-	5.5
Total income	61.8	78.2

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

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
First Capital Connect		
Variable Usage Charges	5.2	5.1
Traction Electricity Charges	28.3	22.8
Electrification Asset Usage Charges	1.0	0.9
Capacity Charges	12.6	12.6
Fixed Charges	27.2	26.8
Station Long Term Charges	2.1	11.3
Station QX	4.2	3.4
Station Facility Charge	-	0.4
Other Charges	-	1.6
Total income	80.6	84.9

	Actual Income In Year	
	2009/10	2010/11
First Great Western		
Variable Usage Charges	15.7	16.1
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	26.2	27.9
Fixed Charges	71.2	72.1
Station Long Term Charges	1.0	17.0
Station QX	2.1	2.3
Station Facility Charge	-	-
Other Charges	1.0	7.9
Total income	117.2	143.3

	Actual Income In Year	
	2009/10	2010/11
London Midland		
Variable Usage Charges	4.2	4.2
Traction Electricity Charges	19.9	11.8
Electrification Asset Usage Charges	1.0	0.6
Capacity Charges	13.6	12.6
Fixed Charges	30.4	31.2
Station Long Term Charges	1.0	10.4
Station QX	4.2	4.1
Station Facility Charge	-	0.2
Other Charges	-	2.8
Total income	74.3	77.9

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

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
London Overground		
Variable Usage Charges	-	0.5
Traction Electricity Charges	2.1	2.4
Electrification Asset Usage Charges	-	-
Capacity Charges	-	0.2
Fixed Charges	4.2	4.1
Station Long Term Charges	-	2.0
Station QX	-	0.2
Station Facility Charge	-	-
Other Charges	-	0.5
Total income	6.3	9.9

	Actual Income In Year	
	2009/10	2010/11
Merseyrail		
Variable Usage Charges	1.0	0.6
Traction Electricity Charges	5.2	4.5
Electrification Asset Usage Charges	-	0.1
Capacity Charges	-	-
Fixed Charges	7.3	7.9
Station Long Term Charges	-	4.6
Station QX	-	-
Station Facility Charge	-	-
Other Charges	-	0.6
Total income	13.5	18.3

	Actual Income In Year	
	2009/10	2010/11
Northern		
Variable Usage Charges	4.2	3.6
Traction Electricity Charges	6.3	4.5
Electrification Asset Usage Charges	-	0.2
Capacity Charges	4.2	4.6
Fixed Charges	81.7	81.8
Station Long Term Charges	1.0	14.8
Station QX	2.1	2.6
Station Facility Charge	-	-
Other Charges	-	3.7
Total income	99.5	115.8

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

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
National Express East Anglia		
Variable Usage Charges	9.4	8.5
Traction Electricity Charges	28.3	27.1
Electrification Asset Usage Charges	1.0	1.3
Capacity Charges	9.4	8.9
Fixed Charges	48.2	48.1
Station Long Term Charges	1.0	15.5
Station QX	2.1	2.3
Station Facility Charge	-	0.3
Other Charges	-	3.6
Total income	99.4	115.6

	Actual Income In Year	
	2009/10	2010/11
Scotrail		
Variable Usage Charges	1.0	0.1
Traction Electricity Charges	1.0	(0.2)
Electrification Asset Usage Charges	-	-
Capacity Charges	-	(0.1)
Fixed Charges	-	-
Station Long Term Charges	-	1.5
Station QX	-	0.3
Station Facility Charge	-	-
Other Charges	-	0.4
Total income	2.0	2.0

	Actual Income In Year	
	2009/10	2010/11
South Eastern		
Variable Usage Charges	7.3	6.9
Traction Electricity Charges	36.6	32.3
Electrification Asset Usage Charges	1.0	0.5
Capacity Charges	10.5	10.2
Fixed Charges	54.4	55.6
Station Long Term Charges	3.1	23.5
Station QX	5.2	4.6
Station Facility Charge	-	0.1
Other Charges	-	7.1
Total income	118.1	140.8

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

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
South West Trains		
Variable Usage Charges	12.6	12.2
Traction Electricity Charges	45.0	37.2
Electrification Asset Usage Charges	1.0	0.6
Capacity Charges	6.3	5.5
Fixed Charges	58.6	59.2
Station Long Term Charges	1.0	21.2
Station QX	3.1	3.2
Station Facility Charge	4.2	5.9
Other Charges	1.0	6.5
Total income	132.8	151.5

	Actual Income In Year	
	2009/10	2010/11
Southern		
Variable Usage Charges	8.4	7.7
Traction Electricity Charges	33.5	33.1
Electrification Asset Usage Charges	1.0	0.5
Capacity Charges	14.7	13.9
Fixed Charges	42.9	43.3
Station Long Term Charges	2.1	14.8
Station QX	4.2	5.1
Station Facility Charge	-	0.2
Other Charges	-	1.4
Total income	106.8	120.0

	Actual Income In Year	
	2009/10	2010/11
Transpennine		
Variable Usage Charges	4.2	3.6
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	2.1	2.2
Fixed Charges	26.2	26.6
Station Long Term Charges	1.0	3.4
Station QX	2.1	1.1
Station Facility Charge	-	-
Other Charges	-	-
Total income	35.6	36.9

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

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
Virgin West Coast		
Variable Usage Charges	23.0	23.0
Traction Electricity Charges	33.5	29.9
Electrification Asset Usage Charges	1.0	1.6
Capacity Charges	22.0	20.5
Fixed Charges	67.0	67.6
Station Long Term Charges	2.1	8.7
Station QX	4.2	4.4
Station Facility Charge	4.2	5.9
Other Charges	-	0.1
Total income	157.0	161.7

	Actual Income In Year	
	2009/10	2010/11
Consolidated Non-Franchised Train Operators		
Variable Usage Charges	3.1	3.6
Traction Electricity Charges	-	2.8
Electrification Asset Usage Charges	3.1	-
Capacity Charges	-	0.7
Fixed Charges	16.8	15.6
Station Long Term Charges	-	-
Station QX	-	-
Station Facility Charge	-	-
Other Charges	1.0	(1.4)
Total income	24.0	21.3

	Actual Income In Year	
	2009/10	2010/11
Consolidated Freight Operating Companies		
Variable Usage Charges	42.9	35.1
Traction Electricity Charges	5.2	4.3
Capacity Charges	4.2	3.1
Performance Regime	(8.4)	(10.4)
Coal Spillage Charge (inc Investment Charge)	2.1	3.8
Freight Connection Agreements and Other Income	3.1	0.5
Total income	49.1	36.4

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, central adjustments and rounding. Amounts in these tables may not cast due to roundings.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) Station long term charges in 2009/10 did not include income from franchised stations.

Statement 7a: England & Wales Analysis of operating expenditure

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
Controllable operating expenditure						
Signaller staff costs	197	169	(28)	403	342	(61)
Non-signaller staff costs	551	483	(68)	1,134	980	(154)
Staff incentives	43	-	(43)	103	-	(103)
Other employee related costs	81	54	(27)	192	108	(84)
Pensions	72	105	33	150	214	64
Consultants/contractors/agency	91	83	(8)	177	167	(10)
Insurance and claims	65	66	1	120	132	12
Accommodation, office, property	106	94	(12)	214	189	(25)
Information management	39	39	-	79	79	-
Other	228	90	(138)	369	243	(126)
Total gross controllable operating expenditure	1,473	1,183	(290)	2,941	2,454	(487)
Less:						
Other operating income	(148)	(87)	61	(298)	(177)	121
Own work capitalised	(499)	(368)	131	(935)	(748)	187
Total controllable operating expenditure	826	728	(98)	1,708	1,529	(179)
Non-controllable operating expenditure						
Traction electricity costs	214	193	(21)	468	384	(84)
Cumulo rates	86	86	-	155	155	-
British Transport Police costs	67	58	(9)	140	117	(23)
Rail Safety and Standards						
Board levy	8	8	-	15	16	1
ORR fees (incl. ORR Licence fee and the railway safety levy)	16	17	1	34	32	(2)
Other (i.e. CIRAS fees)	-	-	-	-	-	-
Total non-controllable operating expenditure	391	362	(29)	812	704	(108)
Total operating expenditure	1,217	1,090	(127)	2,520	2,233	(287)

Note:

- (1) The 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) Network Rail's costs are categorised between operating costs (as shown in the above table) and maintenance (refer to Statement 8a). Costs are classified between controllable operating expenditure and non-controllable operating expenditure. ORR defines non-controllable in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines January 2011.

Statement 7a: England & Wales Analysis of operating expenditure continued

- (2) Signaller staff costs – these costs are lower than the prior year (driven by headcount reductions) but higher than the PR08.
- (3) Non-signaller staff costs – these costs are lower than the prior year (driven by headcount reductions and restricting management pay awards) but higher than the PR08.
- (4) Staff incentives – these costs are lower than the prior year (driven by headcount reductions, movement of costs into maintenance as described in note (1), revisions of the payment mechanisms and lower than expected PPM targets) but higher than the PR08 which assumed no staff incentive payments.
- (5) Other employee related costs – variance to prior year is largely due to headcount reduction, implementation of a standardised expenses system, increased centralised booking of expense-generating activities and lower redundancy costs.
- (6) Insurance and claims – higher than FY09/10 due to lower Schedule 8 recoveries from third parties and the impact of the ORR fine for a Licence condition breach in respect of the integrated train planning system (ITPS) project.
- (7) Other – includes vehicles costs, advertising and awareness campaigns and utilities.
- (8) Own work capitalised – variance to last year due to more capex work being delivered in house to allow cost savings and greater flexibility. The higher value of own work capitalised compared to last year helps explain why some of the other costs in the Statement are higher than the previous year.
- (9) Traction electricity costs – Network Rail has limited ability to influence non-controllable costs. Costs have decreased in comparison to the prior year due to cheaper market electricity prices. Costs are higher than the PR08 due to different assumptions made by the ORR regarding electricity rates.
- (10) British Transport Police – Network Rail has limited ability to influence non-controllable costs. Costs are higher than the PR08 due to different assumptions made by ORR regarding policing costs. Achieving the PR08 targets would necessitate cost savings that could endanger the travelling public.

Statement 8a (1): England & Wales Summary analysis of maintenance expenditure

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽³⁾	PR08	Difference
Core Maintenance ⁽¹⁾						
Track	386	415	29	856	848	(8)
Structures	30	38	8	62	79	17
Signalling	154	124	(30)	324	252	(72)
Telecoms	60	62	2	127	129	2
Electrification	30	33	3	77	66	(11)
Plant & machinery	35	14	(21)	76	30	(46)
Operational property	-	-	-	-	-	-
Other	10	33	23	55	67	12
Total	705	719	14	1,577	1,471	(106)
Non-Core Maintenance						
Indirect costs	183	181	(2)	294	367	73
Other costs	84	160	76	183	275	92
Total	267	341	74	477	642	165
Total maintenance expenditure	972	1,060	88	2,054	2,113	59

Notes:

- (1) These costs only include direct costs
- (2) Maintenance expenditure includes spend on National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.
- (3) The 2009/10 costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) Overall, Maintenance costs were 10 per cent lower than the previous year.
- (2) This was due to a number of factors including headcount savings arising from re-organising staff resources to optimise output, reduced use of contractors (specialist and labour only) and pay awards being less than that assumed in the PR08.
- (3) Other costs include re-organisation costs which were less than those incurred in the previous year.

Statement 8a (2): England & Wales Summary analysis of maintenance headcount by activity

	2010/11
Core Maintenance	
Track	6,637
Structures	22
Signalling	3,522
Telecoms	601
Electrification	829
Plant & machinery	385
Operational property	301
Other	84
Total	12,381
Non-Core Maintenance	
Indirect costs	2,678
Other costs	-
Total	2,678
Total maintenance expenditure	15,059

Notes:

- (1) The above data records the headcount in the maintenance function. The information in Statement 8a (1) contains the company-wide maintenance costs some of which are not borne by the maintenance function. Therefore, the two sets of data are not comparable.
- (2) The above data includes full time equivalent permanent staff.
- (3) No PR08 comparison has been provided by the ORR for this schedule.

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

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Track	545	706	161	1,211	1,463	252
Structures	281	322	41	576	652	76
Signalling	357	450	93	766	940	174
Telecoms	206	220	14	412	543	131
Electrification	76	150	74	160	292	132
Plant and machinery	87	82	(5)	174	247	73
Operational property	229	232	3	447	507	60
Other renewals						
Information management	78	81	3	162	164	2
Corporate offices	37	17	(20)	60	36	(24)
Discretionary investment	15	(5)	(20)	59	97	38
West Coast Rollover	54	-	(54)	102	105	3
Other	5	11	6	17	52	35
Total	189	104	(85)	400	454	54
Total renewals expenditure	1,970	2,266	296	4,146	5,098	952

Note:

- (1) Renewals includes spend on National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.

Comments:

- (1) Overall, the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost and is updated annually. Underspend shown in the above table is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan.
- (2) Track – expenditure in the year was lower due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. Expenditure was less than the prior year as fewer volumes were delivered and delivery was at a cheaper unit rate (see Statement 17).
- (3) Structures – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (4) Signalling – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan. Expenditure was less than the prior year due to more efficient production lowering unit rates (see Statement 15).
- (5) Telecoms – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.

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

- (6) Electrification – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (7) Plant & machinery – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (8) Operational property – increase in expenditure compared to the prior year was due to a higher number of projects being completed as expenditure was re-profiled in the control period to optimise efficient delivery.
- (9) Other - expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan, notably the assumptions regarding the West Coast programme.

Statement 10: England & Wales Other Information

In £m 2010/11 prices unless stated otherwise

	2010/11		
	Actual	PR08	Difference
A) Analysis of Schedule 4 & 8 income/(cost) - performance element			
Schedule 4			
Income	-		-
Cost	(123)		(123)
Net cost	(123)	(160)	37
Schedule 8			
Income	33		33
Cost	(83)		(83)
Net cost	(50)	-	(50)
B) Net Impact of Schedule 4 & 8			
Schedule 4			
Access Charge Supplement Income	155	160	(5)
Cost	(123)	(160)	37
Net income	32	-	32
Schedule 8			
Access Charge Supplement Income	3	-	3
Cost	(50)	-	(50)
Net cost	(47)	-	(47)
C) Opex memorandum account			
Opening balance			
Volume incentive	35		
Proposed Opex to be included in the CP5 expenditure allowance	(13)		
Total logged up items – opening balance	22		
In year			
Volume incentive	11		
Proposed Opex to be included in the CP5 expenditure allowance	(14)		
Total logged up items – in year movements	(3)		
Closing balance			
Volume incentive	46		
Proposed Opex to be included in the CP5 expenditure allowance	(27)		
Total logged up items – closing balance	19		

Statement 10: England & Wales Other Information continued

Notes:

- (1) No detailed PR08 numbers have been provided by the ORR for Table A).
- (2) The Opex memorandum account shown in Table C) records any under/over spends on cumulo rates, ORR fees, reporter fees and NSIP.

Comments:

- (1) Schedule 4 – Compensation payments for possessions were lower than the PR08 largely due to a different profile of renewals expenditure in the control period compared to that assumed in the PR08 (refer to Statement 9b). Schedule 4 costs were lower than the previous year due to lower delivery of renewals requiring possessions, better planning and less disruptive possessions.
- (2) Schedule 8 – Delay minutes were worse than prior year and the PR08 which manifested itself in additional schedule 8 costs. The extreme weather conditions in the year (the DfT has commented that the UK experienced its worst winter for 30 years) was the key reason for this.
- (3) In addition Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR08 are capitalised into the cost of those enhancements.

Statement 12: England & Wales Analysis of efficiency (Real Economic Efficiency Measure)

In £m 2010/11 prices unless stated otherwise

	Controllable Opex	Maintenance	Renewals	Total (OMR)
2010/11				
Efficiency (£m)	55	130	223	408
Efficiency (%)	6.1%	11.7%	10.5%	10.0%
Cumulative				
Efficiency (£m)	26	155	396	577
Efficiency (%)	3.0%	13.7%	17.2%	13.5%

Comments:

- (1) The above table measures progress on the REEM (Real Economic Efficiency Measure). This is a measure of efficiency whose principles have been agreed by the ORR and Network Rail. It is not the same as Network Rail's internal measure of efficiency, the CEM (Cost Efficiency Measure)
- (2) The REEM indicates the level of efficiency made in comparison to the CP3 exit position, ("the baseline"). The baseline is adjusted for inflation, volumes and additional outputs required in CP4 compared to CP3.
- (3) In their PR08 settlement, ORR set Network Rail the target of reducing controllable opex, maintenance and renewals costs by 21 per cent in CP4.
- (4) This is the second year of the five year control period and the efficiencies achieved will be assessed against the target at the end of the control period. The position reported here indicates management's expectations with regards to the quantum of efficiencies achieved during 2010/11 and in the control period to date.
- (5) Measuring efficiencies requires judgements to be made particularly with regard to the sustainability of cost savings. We consider the key judgement in these accounts to be renewals scope efficiencies. Positive management action has included the development of asset policies which reduce the whole-life cost while continuing to improve asset condition. In reporting these efficiencies we place reliance on the asset policies, developed by Network Rail's engineers, as evidence of sustainability. In doing so we judge the work undertaken to be compliant with those asset policies and that evidence suggests that the condition of Network Rail's assets is not deteriorating.

Statement 12: England & Wales Analysis of efficiency (Real Economic Efficiency Measure) continued

- (6) The REEM methodology uses in-year inflation (November RPI) to uplift baseline prices (CP3 Exit Point). Therefore in FY09/10, the baselines in FY08/09 prices were uplifted by 0.3 per cent. In FY10/11 the FY09/10 baselines were uplifted by a further 4.71 per cent.
- (7) Controllable opex – savings in the year arose from headcount reductions and restricting pay awards to less than the weighted RPI.
- (8) Maintenance - cost reductions have been achieved through a major reorganisation that allowed for the standardisation and optimisation of maintenance delivery, and improved the usage of unit cost information. By better planning of works and better use of possessions, the maintenance team has been able to reduce costs. This includes better planning and control over overtime working. New technologies and capital investment have also played a major part in reducing costs. The example below shows how capital investment can be used to reduce costs in what was previously a labour-intensive activity. Network Rail purchased vegetation cutters and mounted them on road rail vehicles to undertake vegetation clearance. The mechanical system is more effective than hand-held chain-saws. In a single shift the mechanical cutters clear over six times as much vegetation and save over 70 per cent on costs.
- (9) Renewals - this has been achieved by implementing revised asset management plans and route management policies, introducing smarter working practices, and investment in equipment that enables us to carry out tasks faster, with less disruption and at a lower cost. Asset management plans aim to provide the most efficient whole-life cost after taking into account route asset management policies. These plans define the maintenance and renewal work required to produce sustainable route outputs for the level of funding available. Smarter working practices include the use of modular designs, which are constructed off-site and placed into position. This cuts possession times, is less disruptive, less labour intensive and cheaper than traditional build methods. Another example of modular designs are the switch & crossing units which are factory assembled, tested and shipped to site ready to install without any dismantling and reassembling. This technology is expected to reduce the replacement time for switches and crossings from 54 hours to eight hours, over the next three years. This will not only be more cost effective, but will also increase network availability and reduce disruption. By optimising the use of high output plant, such as the track laying machine we have been able to drive further efficiencies which are evidenced by reduced track unit costs. Such plant reduces the time it takes to replace track which increases network availability and reduces disruption to users of the railway.
- (10) The reported efficiency is based on delivering work in line with the Delivery Plan.

Statement 13: England & Wales Volume incentives

In £m 2010/11 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward	Outperformance reward - notes
Passenger train miles	46	275.10 m	259.06 m	0.8%	69p	per passenger train mile
Passenger farebox	0	£6,262 m	£5,771 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	0	21.78 m	24.58 m	2.3%	111p	per freight train mile
Freight gross tonne miles	0	23,560 m	25,708 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	46					

Comments:

(1) Under the PR08 settlement Network Rail was allocated expenditure based on anticipated future network capacity in CP4. Demand growth could be higher than envisaged; therefore the PR08 makes provision to incentivise Network Rail to meet unanticipated increases in demand. The above table illustrates the targets Network Rail has to achieve to trigger these rewards. In the control period to date, the passenger train miles target was achieved resulting in volume incentive amounts of £46m being earned. Under the terms of the volume incentive mechanism the cash is paid in the first year of the next control period.

Statement 14: England & Wales Maintenance unit costs

In £m 2010/11 prices unless stated otherwise

Maintenance

Ref	Description	Unit of Measure (unit)	2010/11 Unit Cost (£/unit)	2009/10 Unit Cost (£/unit)	Movement
MNT001	Manual Ultrasonic Inspection of Rail	Rail Mile	359	335	(24)
MNT002	Rail Changing	Rail Yard	174	116	(58)
MNT003	Manual Spot Re-sleepering	No. of Sleepers	199	180	(19)
MNT004	Plain Line Tamping	Track Mile	5,651	4,259	(1,392)
MNT005	Stoneblowing	Track Mile	2,580	3,911	1,331
MNT006	Manual Wet Bed Removal	No. of Bays	135	141	6
MNT008	S&C Unit Renewal	No. of S&C units	13,111	11,034	(2,077)
MNT010	Replacement of S&C Bearers	No. of S&C Bearers	318	217	(101)
MNT011	S&C Arc Weld Repair	No. of Repairs	532	707	175
MNT013	Level 1 Patrolling Track Inspection	Each	73	91	18
MNT015	Weld Repair of Defective Rail	No. of Repairs (weld)	458	510	52
MNT016	Installation of Pre-Fabricated IRJs	No. of Joints	1,676	1,469	(207)
MNT019	Manual Correction of Plain Line Track Geometry	Track Yards	16	19	3
MNT020	Manual Reprofilng of Ballast	Track Yards	3	4	1
MNT026	Replenishment of Ballast Train	Tonnes	20	18	(2)
MNT027	Maintenance of Rail Lubricators	Each	95	231	136
MNT077	Signs	Each	22	21	(1)
MNT050	Point End Routine Maintenance	Services	55	59	4
MNT051	Signals Routine Maintenance	Services	77	90	13
MNT052	Track Circuit Routine Maintenance	Services	56	54	(2)
MNT073	Drainage	Drainage Yards	8	7	(1)
MNT029	Replacement of Pads & Insulators	Sleepers	5	4	(1)

Statement 15: England & Wales Renewals unit costs and coverage

In £m 2010/11 prices unless stated otherwise

Asset	Activity type	Unit cost 2010/11 £000/unit	Unit cost 2009/10 £000/unit	Activity costs reported 2010/11 £000s	Proportion of each asset total renewals spend %
Civils	Overbridge	1.68	3.21	19,708	7
	Underbridge	1.12	1.57	88,301	31
	Overbridge - Bridgeguard 3	2.73	2.99	17,113	6
	Footbridge	4.17	5.56	4,994	2
	Tunnel	0.72	0.98	11,325	4
	Culvert	1.75	2.77	3,746	1
	Retaining Wall	0.67	0.97	1,652	1
	Earthworks	0.19	0.29	53,412	19
Total				200,251	71
Signalling	Re-signalling	194.59	200.53	176,173	49
	Control Renewal	n/a	69.78	3,268	1
	Interlocking renewal	102.77	n/a	18,741	6
	Level crossing renewals – MCB Type	919.75	1087.50	14,760	4
	Level crossing renewals – MCB Type with CCTV	n/a	n/a	n/a	n/a
Total				212,942	60
Telecoms	Large concentrator	3.72	5.61	1	-
	DOO CCTV	61.14	97.61	1,477	5
	PETS/Level crossing	34.26	n/a	117	-
	Small signal box concentrator	3.63	5.44	21	-
	Customer Info system	6.09	8.79	10,230	31
	Long line address system	n/a	n/a	n/a	n/a
Total				11,816	36

Statement 17: England & Wales Other

In £m 2010/11 prices unless stated otherwise

Impact on unit cost factors 2010/11

	2009/10 net unit cost	2010/11 gross unit cost	Indirect Cost Impact	Work mix impact	2010/11 net unit cost (like-for like)	Net efficiency (like-for-like) %
Plain line (£000/ckm)	296	262	-	-	262	11
S&C (£000/equ)	530	433	-	-	433	18

Statement 1: Scotland Summary regulatory financial performance

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
Income	589	574	15	1176	1150	26
Expenditure						
Controllable opex	83	73	(10)	176	154	(22)
Non-controllable opex	28	33	5	62	62	-
Maintenance	96	111	15	198	222	24
Schedule 4 & 8	11	10	(1)	23	22	(1)
Renewals	264	336	72	501	688	187
Enhancements	191	136	(55)	372	321	(51)
Financing costs	155	137	(18)	277	256	(21)
Corporation tax	1	-	(1)	1	-	(1)
Rebates	12	-	(12)	12	-	(12)
Total expenditure	841	836	(5)	1622	1725	103

Notes:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased cumulative Maintenance costs by £6m with a corresponding decrease in Controllable opex

Comments:

- (1) This schedule provides details of Network Rail's income and expenditure during the year and control period to date. In February 2010, Network Rail published its Delivery Plan update 2010 which set out how Network Rail plans to deliver the outputs for the five year regulatory settlement at the appropriate cost. This has a different profile to the PR08 regulatory determination but allowed the business to live within the funding available. A comparison to the Delivery Plan update 2010 is included in the Directors' Review.
- (2) Controllable opex was higher than the PR08. This is set out in more detail in Statement 7a.
- (3) Non-controllable opex was lower than the PR08. This is set out in more detail in Statement 7a.
- (4) Maintenance was lower than the PR08. This is set out in more detail in Statement 8a(1).
- (5) Schedule 4 & 8 was higher than the PR08. This is set out in more detail in Statement 10.
- (6) Renewals expenditure is set out in more detail in Statement 9a and is lower than the PR08 mostly due to re-profiling of expenditure within the control period.
- (7) Enhancements expenditure is set out in more detail in Statement 3 and is higher than the PR08 mostly due to re-profiling of expenditure within the control period.

Statement 1: Scotland Summary regulatory financial performance continued

- (8) Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism ("FIM") fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

Statement 2a: Scotland RAB - regulatory financial position

In £m 2010/11 prices unless stated otherwise

A) Calculation of the Scotland RAB at 31 March 2011

	Actual	PR08	Difference
Opening RAB for the year (2006/07 prices)	3,409	3,522	(113)
Indexation to 2009/10 prices	263	272	(9)
Opening RAB for the year (2009/10 prices)	3,672	3,794	(122)
Indexation for the year	173	179	(6)
Opening RAB (2010/11 prices)	3,845	3,973	(128)
Adjustments for the actual capex outturn in CP3	-	-	-
Renewals (added to the RAB)	251	336	(85)
Enhancements (added to the RAB)	185	136	49
Renewals & Enhancements funded from RFF	(54)	(54)	-
Amortisation	(196)	(196)	-
Closing RAB at 31 March 2011	4,031	4,195	(164)

B) Calculation of the cumulative Scotland RAB at 31 March 2011

	2009/10	2010/11	CP4 Total
Opening RAB (2010/11 prices)	3,672	3,845	3,672
Adjustments for the actual capex outturn in CP3	7	-	7
Renewals (added to the RAB)	235	251	486
Enhancements (added to the RAB)	175	185	360
Renewals & Enhancements funded from RFF	(48)	(54)	(102)
Amortisation	(196)	(196)	(392)
Closing RAB	3,845	4,031	4,031

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. The RAB is a key building block in the ORR's methodology for determining access charges since it forms the basis for calculating the level of allowed return. Allowance is also made for amortisation in calculating funding requirements. The RAB value is considered to be provisional until the end of the control period and we will continue to have regular discussions around the treatment of capital expenditure with the ORR.
- (2) Renewals – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan update 2010 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan update 2010 is mostly due to re-profiling of expenditure within the control period (refer to Statement 9a).
- (3) Enhancements – the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan update 2010 is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. The variance to the Delivery Plan update 2010 is mostly due to re-profiling of expenditure within the control period (refer to Statement 3).

Statement 2b: Scotland RAB - reconciliation of expenditure

In £m 2010/11 prices unless stated otherwise

	Movements in 2010/11		Total as at 31/03/11	Cumulative		
	Adjustment	Capitalised financing		Actual	PR08	Difference
Renewals						
Renewals in the determination			335	683	683	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	1	-	1	2	2	-
CP3 deferrals to CP4	-	-	-	4	3	1
Seven day railway	-	-	-	-	-	-
Renewals overheads	-	-	-	-	-	-
Other adjustments	-	-	-	-	-	-
Adjusted PR08 determination (renewals)	1	-	336	689	688	1
Adjustments for the PR08 RAB roll forward policy						
Adjustments for non-delivery of outputs	-	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(70)	(7)	(77)	(185)	-	(185)
IOPI index adjustments	(6)	-	(6)	(14)	-	(14)
Adjustments for efficient over spend	3	-	3	-	-	-
25% retention of efficient over spend	(1)	-	(1)	-	-	-
Other adjustments	(4)	-	(4)	(4)	-	(4)
Total Renewals (added to the RAB)	(77)	(7)	251	486	688	(202)
Adjustment for inefficient overspend			1	1	-	1
Adjustment for non-delivery of outputs			-	-	-	-
Adjustment for capitalised financing			7	10	-	10
Adjustment for 25% retention of efficient over spend			1	-	-	-
Other adjustments			4	4	-	4
Total actual renewals expenditure (see Statement 9a)			264	501	688	(187)

Statement 2b: Scotland RAB - reconciliation of expenditure continued

In £m 2010/11 prices unless stated otherwise

	Movements in 2010/11			Cumulative		
	Adjustment	Capitalised financing	Total as at 31/03/11	Actual	PR08	Difference
Enhancements						
Enhancements in PR08			136	322	322	-
Adjustments to the PR08 determination						
Renewals / enhancement reallocation	-	-	-	(1)	(1)	-
CP3 deferrals to CP4	-	-	-	4	-	4
Change in funding arrangements	-	-	-	-	-	-
Other adjustments	13	1	14	14	-	14
Adjusted PR08 determination (enhancements)	13	1	150	339	321	18
Adjustments for the PR08 RAB roll forward policy						
Adjustments for non-delivery of outputs	-	-	-	-	-	-
Adjustments for efficient over/under spend	-	-	-	-	-	-
25% retention of efficient over/under spend	-	-	-	-	-	-
Adjustments relating to Funds	-	-	-	-	-	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-	-	-	-	-	-
Adjustments for deferrals of expenditure within CP4	(7)	(1)	(8)	(22)	-	(22)
Other Adjustments	-	-	-	-	-	-
Total PR08 enhancements (added to the RAB)	6	-	142	317	321	(4)
Non PR08 Enhancements						
Non PR08 enhancements expenditure qualifying for capitalised financing	-	-	-	-	-	-
Non PR08 enhancements expenditure not qualifying for capitalised financing	43	-	43	43	-	43
Total Non PR08 enhancement expenditure	43	-	43	43	-	43
Adjustments for amortisation of Non-PR08 enhancements	-	-	-	-	-	-
Total non PR08 enhancements (added to the RAB)	43	-	43	43	-	43
Total enhancements (added to the RAB)	49	-	185	360	321	39
Adjustment for NR first £50m retention			3	9		9
Adjustment for efficient underspend			-	-		-
Adjustments for non-delivery of outputs			-	-		-
Adjustment for capitalised financing			-	-		-
Adjustment for 25% retention of efficient over/under spend			-	-		-
Other adjustments			2	2		2
Non PR08 expenditure						
Third party funded schemes			4	21		21
Other adjustments			1	1		1
Total actual enhancement expenditure (see Statement 3)			195	393	321	72

Statement 2b: Scotland RAB - reconciliation of expenditure continued

In £m 2010/11 prices unless stated otherwise

Memo item 1 - renewals over/under spend log	2009/10	2010/11	CP4 to date
Net volume under/over spend (efficient)	-	-	-
Net volume overspend (inefficient)	-	-	-
Net unit cost over/under spend	-	-	-
Total over/under spend renewals	-	-	-

Memo item 2 - Outstanding non-capex RAB additions	2009/10	2010/11
Brought forward balance	484	469
Indexation for the year	1	22
Amortisation	(16)	(16)
Closing balance	469	475

Comments:

- (1) This schedule shows a reconciliation of the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR08. The RAB calculation is considered to be provisional until the end of the control period.
- (2) The renewals and enhancement profiles are different from those set out in the PR08. This schedule shows how the "rolling RAB" methodology adjusts the RAB (where relevant) for:
 - a. Non-delivery of outputs;
 - b. Deferrals within the control period and net deferral into CP5;
 - c. Changes in input process as indicated by the IOPI index (see below);
 - d. Efficient underspend/ overspend; and
 - e. The effect of all of the above on capitalised financing.
- (3) IOPI is the Infrastructure Output Price Index and is available from the Building Cost Information Service, which is part of the Royal Institute of Chartered Surveyors. The quarter 4 index used for the RAB calculation is only provisional at this stage, and is not finalised until September 2011.

Statement 2c: Scotland Summary of RAB movements

	2009/10	2010/11
PR08 determination	348	335
Deferrals from CP3	4	-
Delivery plan additions/reductions	-	-
Delivery plan re-classifications	1	1
Adjusted PR08 determination	353	336
Deferrals to later in CP4	(108)	(77)
IOPI index adjustment	(8)	(6)
Other adjustments	-	(3)
Adjustments for non-delivery of outputs	-	-
Adjustments for efficient over/under spend	(2)	1
Total additions to RAB in 2010/11	235	251

B) Enhancements RAB additions

Movements

	2009/10	2010/11
PR08 determination	186	136
Deferrals from CP3	4	-
Delivery plan additions/reductions	-	14
Delivery plan re-classifications	(1)	-
Adjusted PR08 determination	189	150
Deferrals to later in CP4	(14)	(8)
Adjustments for non-delivery of outputs	-	-
Adjustments for efficient over/under spend	-	-
Other adjustments	-	-
PR08 determination additions to the RAB	175	142
Non-PR08 determination additions to the RAB	-	43
Total additions to RAB in 2010/11	175	185

Statement 3: Scotland Analysis of enhancement capital expenditure

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	Adjusted PR08	Difference	Actual	Adjusted PR08	Difference
A) Enhancements included in PR08						
Schemes covered by a tailored protocol or fixed price agreement						
Airdrie to Bathgate	87	56	(31)	227	215	(12)
Total Schemes covered by a tailored protocol or fixed price agreement	87	56	(31)	227	215	(12)
Funds						
Tier 3 project development	1	3	2	1	7	6
Small projects fund	4	4	-	5	9	4
Adjustment due to change of funding from DfT	-	-	-	-	-	-
Total Funds	5	7	2	6	16	10
Other PR08 funded schemes						
Paisley Corridor Improvement	51	58	7	73	100	27
Borders railway	-	-	-	-	-	-
Glasgow to Kilmarnock	2	-	(2)	16	15	(1)
Unallocated Overheads	2	-	(2)	2	-	(2)
Total Other PR08 funded schemes	55	58	3	91	115	24
CP4 Delivery Plan	147	121	(26)	324	346	22
Schemes carried over from CP3						
WCRM	-	-	-	-	-	-
ERTMS	-	-	-	3	-	(3)
Cab fitment	-	-	-	1	-	(1)
Total Schemes carried over from CP3	-	-	-	4	-	(4)
Re-profiled expenditure due to programme deferral	-	15	15	-	(25)	(25)
Total PR08 funded enhancements (see Statement 2b)	147	136	(11)	328	321	(7)

Statement 3: Scotland Analysis of enhancement capital expenditure (continued)

In £m 2010/11 prices unless stated otherwise

	Actual	2010/11 Adjusted PR08	Difference	Actual	Cumulative Adjusted PR08	Difference
B) Investments not included in PR08						
Government sponsored schemes						
Edinburgh - Glasgow Improvements (EGIP)	22	-	(22)	23	-	(23)
Ayrshire Inverclyde	17	-	(17)	17	-	(17)
Other	2	-	(2)	1	-	(1)
Total Government sponsored schemes	41	-	(41)	41	-	(41)
Network Rail sponsored schemes (income generating)						
Acquisition of DB Schenker sites	1	-	(1)	1	-	(1)
Other income generating schemes	1	-	(1)	1	-	(1)
Total Network Rail sponsored schemes (income generating)	2	-	(2)	2	-	(2)
Network Rail sponsored schemes (cost saving)						
Other cost saving schemes	-	-	-	-	-	-
Total Network Rail sponsored schemes (cost saving)	-	-	-	-	-	-
Schemes promoted by third parties						
Other schemes promoted by third parties	-	-	-	-	-	-
Total Schemes promoted by third parties	-	-	-	-	-	-
Enhancement expenditure not meeting ORR criteria						
Outperformance expenditure	1	-	(1)	1	-	(1)
Schemes with pay back period within the control period	-	-	-	-	-	-
Schemes with facility fees	-	-	-	-	-	-
Total enhancement expenditure not meeting ORR criteria	1	-	(1)	1	-	(1)
Total Network Rail funded enhancements (see Statement 1)	191	136	(55)	372	321	(51)
Third party funded (PAYG)	4	-	(4)	21	-	(21)
Total enhancements (see Statement 2b)	195	136	(59)	393	321	(72)

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 of the major projects for which there was an allowance within the PR08. Network Rail also delivered enhancement projects that are not funded by the PR08. These are shown in part B) of this Statement.
- (2) The PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan update 2010 is Network Rail's latest response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost. Variances to the Delivery Plan are mostly due to re-profiling of expenditure.
- (3) No PR08 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (4) Enhancement expenditure by Network Rail in the year was £191m (as shown in Statement 1). This comprises the total enhancements figure in the table above (£195m) less the PAYG schemes (£4m).

Statement 4: Scotland Net debt and financial ratios

In £m cash unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
A) Reconciliation of net debt Scotland at 31 March 2011						
Opening net debt	2,298	2,421	123	2,081	2,118	37
Income						
Fixed charges	(118)	(119)	(1)	(228)	(227)	1
Total variable charges (including EC4T)	(39)	(38)	1	(77)	(74)	3
Grant income	(384)	(365)	19	(748)	(721)	27
Total other single till income	(48)	(52)	(4)	(97)	(102)	(5)
Other income	-	-	-	-	-	-
Total income	(589)	(574)	15	(1,150)	(1,124)	26
Expenditure						
Controllable operating expenditure	83	73	(10)	172	150	(22)
Non-controllable operating expenditure	28	33	5	60	61	1
Maintenance expenditure	96	111	15	194	217	23
Schedule 4&8	11	10	(1)	22	21	(1)
Renewals expenditure	264	336	72	490	671	181
Enhancement expenditure	191	136	(55)	364	312	(52)
Total expenditure	673	699	26	1,302	1,432	130
Financing						
Interest expenditure on nominal debt - FIM covered	51	70	19	106	138	32
Interest expenditure on IL debt - FIM covered	18	15	(3)	32	26	(6)
Accretion on IL debt - FIM covered	67	26	(41)	99	43	(56)
Expenditure on the FIM	19	19	-	35	36	1
Interest expenditure on nominal debt - unsupported	-	7	7	-	13	13
Interest expenditure on IL debt - unsupported	-	-	-	-	-	-
Accretion on IL debt - unsupported	-	-	-	-	-	-
Total financing costs	155	137	(18)	272	256	(16)
Corporation tax	1	-	(1)	1	-	(1)
Rebates	12	-	(12)	12	-	(12)
Other¹	(13)	-	13	19	-	(19)
Movement in net debt	239	262	23	456	564	108
Closing net debt	2,537	2,683	146	2,537	2,682	145

Statement 4: Scotland Net debt and financial ratios continued

In £m cash prices unless stated otherwise

B) Financial Ratios

	2009/10	2010/11
Adjusted interest cover ratio (AICR)	1.69	1.84
FFO/interest	3.89	4.07
Net debt/RAB (gearing)	62.6%	62.9%
FFO/debt	14.4%	14.1%
RCF/debt	10.7%	10.7%

C) Average interest costs by category of debt

Average interest costs on nominal debt - FIM covered	5.4%	5.3%
Average interest costs on IL debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	0.8%	0.8%
Average interest costs on nominal debt - unsupported	N/A	N/A
Average interest costs on IL debt (excl. accretion) - unsupported	N/A	N/A

⁽¹⁾ Other

Movements in working capital	-	(13)
Other	27	-

Note:

- (1) The 2009/10 Controllable opex and Maintenance costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison. This change has increased the cumulative Maintenance costs by £6m with a corresponding decrease in Controllable opex

Comments:

- (1) This Statement shows the movement in Network Rail's net debt during the year in comparison to that assumed by the PR08. The Statement shows the major inflows and outflows of cash that have resulted in the increase in net debt. Part B) of this Statement shows financial ratios that have been calculated using the formulae contained in the Regulatory Accounting Guidelines January 2011. As the Statement presents the reconciliation of net debt the figures are reported in cash prices.
- (2) Controllable opex is shown in more detail in Statement 7a.
- (3) Non-controllable opex is shown in more detail in Statement 7a.
- (4) Maintenance is shown in more detail in Statement 8a.
- (5) Schedule 4 & 8 is shown in more detail in Statement 10.
- (6) Renewals expenditure is shown in more detail in Statement 9a.
- (7) Enhancements expenditure is shown in more detail in Statement 3.

Statement 4: Scotland Net debt and financial ratios continued

In £m cash prices unless stated otherwise

- (8) Financing – Network Rail paid interest on nominal debt, index linked debt and the Financial Indemnity Mechanism (FIM). Network Rail did not issue debt outside of the FIM. A fee was payable for the use of the FIM at 0.8 per cent. In addition, Network Rail's debt increased by accretion to index linked debt, which are amounts repayable on maturity of the index linked bonds. The variances on nominal debt and index linked debt largely reflect a different mix of borrowing than assumed in the PR08.
- a) Interest expenditure on nominal debt – FIM covered was lower than the previous year due to a favourable settlement of a commercial claim.
 - b) Interest expenditure on IL debt – FIM covered has increased compared to FY09/10 because the average value of index linked debt was higher in the current year.
 - c) Accretion on IL debt – FIM covered was higher than in FY09/10 due to higher average index-linked debt holdings and a higher RPI at the dates used to calculate accretion.
- (9) Other – the value in 2009/10 includes a £27m adjustment to reflect changes in the definition of debt in the Regulatory Accounting Guidelines February 2010.
- (10) Financial ratios – ratios are defined as follows:

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

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

- (11) The debt to RAB ratio measures the value of Network Rail's debt against the value of the RAB. It is important in establishing that the Group debt is at sustainable levels. A ratio of less than 100 per cent indicates that the RAB is worth more than the debt raised to finance investment expenditure and that the business has a significant buffer to absorb unplanned net costs. The debt to RAB ratio for the year was 62.9 per cent which was in line with the Delivery Plan update 2010. The ORR imposes regulatory limits on this gearing ratio, because with the FIM in place there are not the same market pressures on borrowing as other utilities face. The gearing ratio is well within the limit in the revised Licence condition of 70 per cent.
- (12) The adjusted interest cover ratio (AICR) measures the Group's ability to pay interest on its debt after taking into account all running costs including steady state renewals. Network Rail's AICR Scotland for the year was 1.84 (2010:1.69), which is better than both the business plan and the ORR determination. This demonstrates that the current level of interest payable is affordable as business generated operational revenue is 84 per cent greater than the cash required to pay net financing costs.

Statement 5: Scotland Financial Performance Statement

No Statement is included in the regulatory financial statements for the year ended 31 March 2011 as agreed with the ORR.

Statement 6a: Scotland Analysis of income

In £m 2010/11 prices unless stated otherwise

	Actual	2010/11 PR08	Difference	Actual	Cumulative PR08	Difference
Fixed charges	118	118	-	233	233	-
Variable charges						
Variable usage charge	11	10	1	23	20	3
Traction electricity charges net of costs	11	12	(1)	25	23	2
Electrification asset usage charge	-	1	(1)	1	1	-
Capacity charge	5	5	-	10	10	-
Station usage charges	-	-	-	-	-	-
Schedule 4 net income	12	10	2	20	21	(1)
Schedule 8 net income	-	-	-	-	-	-
Total gross variable charge income	39	38	1	79	75	4
Total franchised track access income	157	156	1	312	308	4
Grant income	384	366	18	765	738	27
Total franchised track access and grant income	541	522	19	1,077	1,046	31
Other single till income						
Property income	7	7	-	17	13	4
Freight income	7	10	(3)	12	20	(8)
Open access income	-	-	-	-	-	-
Stations income	28	29	(1)	57	58	(1)
Depots income	6	6	-	13	12	1
Other	-	-	-	-	1	(1)
Total other single till income	48	52	(4)	99	104	(5)
Total income	589	574	15	1,176	1,150	26

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement income. Net amounts receivable under Schedule 4 are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement income. Net amounts payable under Schedule 8 are disclosed in Statement 10.

Comments:

- (1) This Statement shows a schedule of Network Rail's income compared to the PR08. Fixed charges and grants are largely fixed. The remaining income types are variable.
- (2) Fixed charges – these are higher than FY09/10 partly due to the phasing of fixed charges income specified in the PR08 and partly due to favourable settlement of commercial claims.
- (3) Traction electricity charges – these charges are determined by the prevailing market electricity prices and thus Network Rail has minimal control over what these will be. In this respect traction electricity charges should be considered non-controllable income in the same manner that the traction electricity charges payable are classified as non-controllable opex. Income is lower than FY09/10 due to lower market electricity prices reducing the amounts Network Rail can charge on to TOCs.

Statement 6a: Scotland Analysis of income continued

- (4) Grant income – the variance arises from differences in the inflation assumed in the deed of grant with the Department for Transport and Transport Scotland compared to that used to uplift the PR08 from 06/07 prices. This is partly offset by the re-phasing of grant income from Transport Scotland.
- (5) Freight income – extreme weather conditions during the current year adversely affected the freight income in comparison to the prior year, mainly due to increased performance compensation charges and reduced track access income. Under the new pricing structure for CP4, Network Rail would have to increase traffic by nearly 40 per cent to achieve the PR08 assumption.
- (6) Analysis of income does not include the impact of rebates paid to stakeholders in the year. These are disclosed separately in Statement 1.

Statement 6c: Scotland Analysis of income by operator

In £m 2010/11 prices unless stated otherwise

Franchised Train Operating Companies

	Actual Income In Year	
	2009/10	2010/11
Cross Country		
Variable Usage Charges	-	0.6
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	1.0	0.6
Fixed Charges	-	-
Station Long Term Charges	-	-
Station QX	-	0.2
Station Facility Charge	-	-
Other Charges	-	-
Total income	1.0	1.4

	Actual Income In Year	
	2009/10	2010/11
East Coast Main Line Rail		
Variable Usage Charges	2.1	2.3
Traction Electricity Charges	2.1	1.6
Electrification Asset Usage Charges	-	0.1
Capacity Charges	1.0	0.6
Fixed Charges	-	-
Station Long Term Charges	-	1.0
Station QX	1.0	0.3
Station Facility Charge	-	-
Other Charges	-	0.3
Total income	6.2	6.2

	Actual Income In Year	
	2009/10	2010/11
Scotrail		
Variable Usage Charges	6.3	5.9
Traction Electricity Charges	10.5	9.0
Electrification Asset Usage Charges	-	0.4
Capacity Charges	2.1	2.3
Fixed Charges	117.3	116.4
Station Long Term Charges	2.1	15.6
Station QX	3.1	2.8
Station Facility Charge	-	-
Other Charges	-	4
Total income	141.4	156.4

Statement 6c: Scotland Analysis of income by operator continued

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
Transpennine		
Variable Usage Charges	-	0.3
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	-	0.3
Fixed Charges	-	-
Station Long Term Charges	-	0.3
Station QX	-	0.1
Station Facility Charge	-	-
Other Charges	-	-
Total income	-	1.0

	Actual Income In Year	
	2009/10	2010/11
Virgin West Coast		
Variable Usage Charges	2.1	1.7
Traction Electricity Charges	2.1	1.6
Electrification Asset Usage Charges	1.0	0.1
Capacity Charges	-	1.2
Fixed Charges	-	-
Station Long Term Charges	-	0.6
Station QX	-	0.3
Station Facility Charge	-	0.4
Other Charges	-	-
Total income	5.2	5.9

	Actual Income In Year	
	2009/10	2010/11
Consolidated Non-Franchised Train Operators		
Variable Usage Charges	-	-
Traction Electricity Charges	-	-
Electrification Asset Usage Charges	-	-
Capacity Charges	-	-
Fixed Charges	-	-
Station Long Term Charges	-	-
Station QX	-	-
Station Facility Charge	-	-
Other Charges	-	-
Total income	-	-

Statement 6c: Scotland Analysis of income by operator continued

In £m 2010/11 prices unless stated otherwise

	Actual Income In Year	
	2009/10	2010/11
Consolidated Freight Operating Companies		
Variable Usage Charges	5.2	6.3
Traction Electricity Charges	1.0	0.8
Capacity Charges	-	0.5
Performance Regime	(1.0)	(1.9)
Coal Spillage Charge (inc Investment Charge)	-	0.7
Freight Connection Agreements and Other Income	-	0.1
Total income	5.2	6.5

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, central adjustments and rounding. Amounts in these tables may not cast due to roundings.
- (2) No PR08 comparison has been provided by the ORR for this schedule.
- (3) Station long term charges in 2009/10 did not include income from franchised stations.

Statement 7a: Scotland Analysis of operating expenditure

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽¹⁾	PR08	Difference
Controllable operating expenditure						
Signaller staff costs	20	17	(3)	41	35	(6)
Non-signaller staff costs	57	49	(8)	117	99	(18)
Staff incentives	5	-	(5)	10	-	(10)
Other employee related costs	8	5	(3)	21	11	(10)
Pensions	8	11	3	17	22	5
Consultants/contractors/agency	8	8	-	16	17	1
Insurance and claims	9	6	(3)	18	13	(5)
Accommodation, office, property	4	9	5	15	19	4
Information management	4	4	-	8	8	-
Other	17	11	(6)	31	23	(8)
Total gross controllable operating expenditure	140	120	(20)	294	247	(47)
Less:						
Other operating income	(14)	(9)	5	(30)	(18)	12
Own work capitalised	(43)	(38)	5	(88)	(75)	13
Total controllable operating expenditure	83	73	(10)	176	154	(22)
Non-controllable operating expenditure						
Traction electricity costs	13	12	(1)	28	23	(5)
Cumulo rates	5	12	7	14	21	7
British Transport Police costs	7	6	(1)	14	12	(2)
Rail Safety and Standards						
Board levy	1	1	-	2	2	-
ORR fees (incl. ORR Licence fee and the railway safety levy)	2	2	-	4	4	-
Other (i.e. CIRAS fees)	-	-	-	-	-	-
Total non-controllable operating expenditure	28	33	5	62	62	-
Total operating expenditure	111	106	(5)	238	216	(22)

Note:

- (1) The 2009/10 costs have been restated to reflect a reclassification of pension, staff incentive and corporate recharges introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) Network Rail's costs are categorised between operating costs (as shown in the above table) and maintenance (refer to Statement 8a). Costs are classified between controllable operating expenditure and non-controllable operating expenditure. ORR defines non-controllable in the PR08. The controllable costs are shown in the manner prescribed by the Regulatory Accounting Guidelines January 2011.
- (2) Signaller staff costs – these costs are lower than the prior year (driven by headcount reductions) but higher than the PR08.

Statement 7a: Scotland Analysis of operating expenditure continued

- (3) Non-signaller staff costs – these costs are lower than the prior year (driven by headcount reductions and restricting management pay awards) but higher than the PR08.
- (4) Staff incentives – these costs are lower than the prior year (driven by headcount reductions, movement of costs into maintenance as described in note (1), revisions of the payment mechanisms and lower than expected PPM targets) but higher than the PR08 which assumed no staff incentive payments.
- (5) Other employee related costs – variance to prior year is largely due to an improved method of allocating staff costs to geographical areas.
- (6) Accommodation, office, property – variance to prior year is largely due to an improved method of allocating staff costs to geographical areas.
- (7) Other – includes vehicles costs, advertising and awareness campaigns and utilities.
- (8) Traction electricity costs – Network Rail has limited ability to influence non-controllable costs. Costs have decreased in comparison to the prior year due to cheaper market electricity prices. Costs are higher than the PR08 due to different assumptions made by the ORR regarding electricity rates.
- (9) British Transport Police – Network Rail has limited ability to influence non-controllable costs. Costs are higher than the PR08 due to different assumptions made by ORR regarding policing costs. Achieving the PR08 targets would necessitate cost savings that could endanger the travelling public.
- (10) Cumulo rates – lower than FY09/10 due to an improved method of allocating cumulo rates expenditure to geographical areas.

Statement 8a (1): Scotland Summary analysis of maintenance expenditure

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual ⁽³⁾	PR08	Difference
Core Maintenance ⁽¹⁾						
Track	37	45	8	84	92	8
Structures	4	4	-	7	8	1
Signalling	16	13	(3)	34	26	(8)
Telecoms	6	7	1	12	16	4
Electrification	4	5	1	7	11	4
Plant & machinery	3	2	(1)	4	3	(1)
Operational property	-	-	-	-	-	-
Other	-	4	4	9	8	(1)
Total	70	80	10	157	164	7
Non-Core Maintenance						
Indirect costs	17	19	2	21	39	18
Other costs	9	12	3	20	19	(1)
Total	26	31	5	41	58	17
Total maintenance expenditure	96	111	15	198	222	24

Notes:

- (1) These costs only include direct costs
- (2) Maintenance expenditure includes spend on National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.
- (3) The 2009/10 costs have been restated to reflect a reclassification of pension and staff incentive costs introduced in 2010/11 in order to create a like-for-like comparison.

Comments:

- (1) Overall, Maintenance costs were 6 per cent lower than the previous year.
- (2) This was due to a number of factors including headcount savings arising from re-organising staff resources to optimise output, reduced use of contractors (specialist and labour only) and pay awards being less than that assumed in the PR08.
- (3) Other costs include re-organisation costs which were less than those incurred in the previous year.

Statement 8a (2): Scotland Summary analysis of maintenance headcount by activity

	2010/11
Core Maintenance	
Track	716
Structures	2
Signalling	376
Telecoms	65
Electrification	86
Plant & machinery	18
Operational property	29
Other	-
Total	1,292
Non-Core Maintenance	
Indirect costs	281
Other costs	-
Total	281
Total maintenance expenditure	1,573

Notes:

- (1) The above data records the headcount in the maintenance function. The information in Statement 8a (1) contains the company-wide maintenance costs some of which are not borne by the maintenance function. Therefore, the two sets of data are not comparable.
- (2) The above data includes full time equivalent permanent staff.
- (3) No PR08 comparison has been provided by the ORR for this schedule.

Statement 9a: Scotland Summary analysis of renewals expenditure

In £m 2010/11 prices unless stated otherwise

	2010/11			Cumulative		
	Actual	PR08	Difference	Actual	PR08	Difference
Track	60	79	19	125	155	30
Structures	75	89	14	150	180	30
Signalling	16	36	20	37	60	23
Telecoms	42	34	(8)	79	87	8
Electrification	2	11	9	3	25	22
Plant and machinery	12	9	(3)	18	24	6
Operational property	43	66	23	65	122	57
Other renewals						
Information management	9	8	(1)	17	17	-
Corporate offices	3	1	(2)	4	2	(2)
Discretionary investment	2	(1)	(3)	2	8	6
Other	-	4	4	1	8	7
Total	14	12	(2)	24	35	11
Total renewals expenditure	264	336	72	501	688	187

Comments:

- (1) Overall, the PR08 assumed a different trend of expenditure to that published by Network Rail in the Delivery Plan update 2010. The Delivery Plan is Network Rail's response to the PR08 and outlines how it intends to deliver the outputs for the five-year regulatory settlement at the appropriate cost and is updated annually. Underspend shown in the above table is mostly the result of differences in expenditure profiles between the PR08 and Network Rail's own plan.
- (2) Track – expenditure in the year was lower due to a different assumption about the timing of when volumes would be delivered in the PR08 compared to Network Rail's own plan. Expenditure was less than the prior year as fewer volumes were delivered and delivery was at a cheaper unit rate (see Statement 17).
- (3) Structures – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (4) Signalling – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan. Expenditure was less than the prior year due to more efficient production lowering unit rates (see Statement 15).
- (5) Telecoms – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (6) Electrification – expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.

Statement 9a: Scotland Summary analysis of renewals expenditure continued

- (7) Plant & machinery – expenditure in the year was higher due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.
- (8) Operational property – increase in expenditure compared to the prior year was due to a higher number of projects being completed as expenditure was re-profiled in the control period to optimise efficient delivery.
- (9) Other - expenditure in the year was lower due to a different assumption about the timing of when the work would be performed in the PR08 compared to Network Rail's own plan.

Note:

- (1) Renewals includes spend on National Stations Improvement Programme (NSIP) of £nil, Performance fund of £nil and the seven day railway of £nil.

Statement 10: Scotland Other Information

In £m 2010/11 prices unless stated otherwise

	Actual	2010/11 PR08	Difference
A) Analysis of Schedule 4 & 8 income/(cost) - performance element			
Schedule 4			
Income	-		-
Cost	(5)		(5)
Net cost	(5)	(10)	5
Schedule 8			
Income	2		2
Cost	(8)		(8)
Net cost	(6)	-	(6)
B) Net Impact of Schedule 4 & 8			
Schedule 4			
Access Charge Supplement Income	12	10	2
Cost	(5)	(10)	5
Net income	7	-	7
Schedule 8			
Access Charge Supplement Income	-	-	-
Cost	(6)	-	(6)
Net cost	(6)	-	(6)
C) Opex memorandum account			
Opening balance			
Volume incentive	3		
Proposed opex to be included in the CP5 expenditure allowance	-		
Total logged up items - opening balance	3		
In year			
Volume incentive	1		
Proposed Opex to be included in the CP5 expenditure allowance	(7)		
Total logged up items – in year movements	(6)		
Closing balance			
Volume incentive	4		
Proposed Opex to be included in the CP5 expenditure allowance	(7)		
Total logged up items - cumulative	(3)		

Statement 10: Scotland Other Information continued

Notes:

- (1) No detailed PR08 numbers have been provided by the ORR for Table A).
- (2) The Opex memorandum account shown in Table C) records any under/over spends on cumulo rates, ORR fees, reporter fees and NSIP.

Comments:

- (1) Schedule 4 – Compensation payments for possessions were lower than the PR08 largely due to a different profile of renewals expenditure in the control period compared to that assumed in the PR08 (refer to Statement 9b). Schedule 4 costs were lower than the previous year due to lower delivery of renewals requiring possessions, better planning and less disruptive possessions.
- (2) Schedule 8 – Delay minutes were worse than prior year and the PR08 which manifested itself in additional schedule 8 costs. The extreme weather conditions in the year (the DfT has commented that the UK experienced its worst winter for 30 years) was the key reason for this.
- (3) In addition Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR08 are capitalised into the cost of those enhancements.

Statement 12: Scotland Analysis of efficiency (Real Economic Efficiency Measure)

In £m 2010/11 prices unless stated otherwise

	Controllable Opex	Maintenance	Renewals	Total (OMR)
2010/11				
Efficiency (£m)	12	8	29	49
Efficiency (%)	12.4%	7.2%	9.1%	9.7%
Cumulative				
Efficiency (£m)	7	9	36	52
Efficiency (%)	8.3%	8.6%	11.8%	10.5%

Commentary:

- (1) The above table measures progress on the REEM (Real Economic Efficiency Measure). This is a measure of efficiency whose principles have been agreed by the ORR and Network Rail. It is not the same as Network Rail's internal measure of efficiency, the CEM (Cost Efficiency Measure)
- (2) The REEM indicates the level of efficiency made in comparison to the CP3 exit position, ("the baseline"). The baseline is adjusted for inflation, volumes and additional outputs required in CP4 compared to CP3.
- (3) In their PR08 settlement, ORR set Network Rail the target of reducing controllable opex, maintenance and renewals costs by 21 per cent in CP4.
- (4) This is the second year of the five year control period and the efficiencies achieved will be assessed against the target at the end of the control period. The position reported here indicates management's expectations with regards to the quantum of efficiencies achieved during 2010/11 and in the control period to date.
- (5) Measuring efficiencies requires judgements to be made particularly with regard to the sustainability of cost savings. We consider the key judgement in these accounts to be renewals scope efficiencies. Positive management action has included the development of asset policies which reduce the whole-life cost while continuing to improve asset condition. In reporting these efficiencies we place reliance on the asset policies, developed by Network Rail's engineers, as evidence of sustainability. In doing so we judge the work undertaken to be compliant with those asset policies and that evidence suggests the condition of Network Rail's assets is not deteriorating.
- (6) The REEM methodology uses in-year inflation (November RPI) to uplift baseline prices (CP3 Exit Point). Therefore in FY09/10, the baselines in FY08/09 prices were uplifted by 0.3 per cent. In FY10/11 the FY09/10 baselines were uplifted by a further 4.71 per cent.

Statement 12: Scotland Analysis of efficiency (Real Economic Efficiency Measure) continued

- (7) Controllable opex – savings in the year arose from headcount reductions and restricting pay awards to less than the weighted RPI.
- (8) Maintenance - cost reductions have been achieved through a major reorganisation that allowed for the standardisation and optimisation of maintenance delivery, and improved the usage of unit cost information. By better planning of works and better use of possessions, the maintenance team has been able to reduce costs. This includes better planning and control over overtime working. New technologies and capital investment have also played a major part in reducing costs. The example below shows how capital investment can be used to reduce costs in what was previously a labour-intensive activity. Network Rail purchased vegetation cutters and mounted them on road rail vehicles to undertake vegetation clearance. The mechanical system is more effective than hand-held chain-saws. In a single shift the mechanical cutters clear over six times as much vegetation and save over 70 per cent on costs.
- (9) Renewals - this has been achieved by implementing revised asset management plans and route management policies, introducing smarter working practices, and investment in equipment that enables us to carry out tasks faster, with less disruption and at a lower cost. Asset management plans aim to provide the most efficient whole-life cost after taking into account route asset management policies. These plans define the maintenance and renewal work required to produce sustainable route outputs for the level of funding available. Smarter working practices include the use of modular designs, which are constructed off-site and placed into position. This cuts possession times, is less disruptive, less labour intensive and cheaper than traditional build methods. Another example of modular designs are the switches & crossing units which are factory assembled, tested and shipped to site ready to install without any dismantling and reassembling. This technology is expected to reduce the replacement time for switches and crossings from 54 hours to eight hours, over the next three years. This will not only be more cost effective, but will also increase network availability and reduce disruption. By optimising the use of high output plant, such as the track laying machine we have been able to drive further efficiencies which are evidenced by reduced track unit costs. Such plant reduces the time it takes to replace track which increases network availability and reduces disruption to users of the railway.
- (10) The reported efficiency is based on delivering work in line with the Delivery Plan.

Statement 13: Scotland Volume incentives

In £m 2010/11 prices unless stated otherwise

	Volume incentive (£m)	Actual	2008/09 baseline	Baseline annual growth (trigger target)	Outperformance reward	Outperformance reward - notes
Passenger train miles	4	25.02 m	23.60 m	0.8%	69p	per passenger train mile
Passenger farebox	-	£253 m	£233 m	4.7% (real)	1.5%	% of additional revenue
Freight train miles	-	2.31 m	2.61 m	2.3%	111p	per freight train mile
Freight gross tonne miles	-	2,502 m	2,730 m	1.6%	100p	per freight 1000 gross tonne mile
Total incentive	4					

Commentary:

(1) Under the PR08 settlement Network Rail was allocated expenditure based on anticipated future network capacity in CP4. Demand growth could be higher than envisaged; therefore the PR08 makes provision to incentivise Network Rail to meet unanticipated increases in demand. The above table illustrates the targets Network Rail has to achieve to trigger these rewards. In the control period to date, the passenger train miles target was achieved resulting in volume incentive amounts of £4m being earned. Under the terms of the volume incentive mechanism the cash is paid in the first year of the next control period.

Statement 14: Scotland Maintenance unit costs

In £m 2010/11 prices unless stated otherwise

Maintenance

Ref	Description	Unit of Measure (unit)	2010/11 Unit Cost (£/unit)	2009/10 Unit Cost (£/unit)	Movement
MNT001	Manual Ultrasonic Inspection of Rail	Rail Mile	544	340	(204)
MNT002	Rail Changing	Rail Yard	161	115	(46)
MNT003	Manual Spot Re-sleeping	No. of Sleepers	138	178	40
MNT004	Plain Line Tamping	Track Mile	5,316	4,321	(995)
MNT005	Stoneblowing	Track Mile	5,491	3,955	(1,536)
MNT006	Manual Wet Bed Removal	No. of Bays	103	141	38
MNT008	S&C Unit Renewal	No. of S&C units	8,850	10,608	1,758
MNT010	Replacement of S&C Bearers	No. of S&C Bearers	226	221	(5)
MNT011	S&C Arc Weld Repair	No. of Repairs	558	708	150
MNT013	Level 1 Patrolling Track Inspection	Each	55	87	32
MNT015	Weld Repair of Defective Rail	No. of Repairs (weld)	542	513	(29)
MNT016	Installation of Pre-Fabricated IRJs	No. of Joints	1,252	1,429	177
MNT019	Manual Correction of Plain Line Track Geometry	Track Yards	16	19	3
MNT020	Manual Reprofilling of Ballast	Track Yards	4	4	-
MNT026	Replenishment of Ballast Train	Tonnes	18	18	-
MNT027	Maintenance of Rail Lubricators	Each	57	219	162
MNT077	Signs	Each	2	20	18
MNT050	Point End Routine Maintenance	Services	36	58	22
MNT051	Signals Routine Maintenance	Services	67	91	24
MNT052	Track Circuit Routine Maintenance	Services	51	54	3
MNT073	Drainage	Drainage Yards	3	7	4
MNT029	Replacement of Pads & Insulators	Sleepers	5	5	-

Statement 15: Scotland Renewals unit costs and coverage

In £m 2010/11 prices unless stated otherwise

Asset	Activity type	Unit cost	Unit cost	Activity costs	Proportion of each
		2010/11	2009/10	reported 2010/11	asset total renewals
		£000/unit	£000/unit	£000s	spend
					%
Civils	701 Overbridge	2.38	n/a	378	1
	702 Underbridge	3.03	4.90	26,896	36
	703 Overbridge - Bridgeguard 3	n/a	n/a	-	-
	704 Footbridge	12.60	3.55	328	-
	705 Tunnel	0.95	2.56	1,748	2
	706 Culvert	9.34	4.26	1,821	2
	707 Retaining Wall	1.38	n/a	198	-
	708 Earthworks	0.15	0.16	15,492	21
Total				46,861	62
Signalling	101 - Re-signalling	189.36	187.06	2,890	19
	102 - Control Renewal	n/a	n/a	n/a	n/a
	103 - Interlocking renewal	n/a	n/a	n/a	n/a
	108 - Level crossing renewals - MCB Type	932.95	n/a	3,699	25
	108 - Level crossing renewals - MCB Type with CCTV	n/a	n/a	n/a	n/a
Total				6,589	44
Telecoms	501 - Large concentrator	n/a	n/a	n/a	n/a
	502 - DOO CCTV	n/a	n/a	n/a	n/a
	503 - PETS/Level crossing	n/a	n/a	n/a	n/a
	504 - Small signal box concentrator	n/a	n/a	n/a	n/a
	506 - Customer Info system	n/a	n/a	n/a	n/a
	507 - Long line address system	n/a	n/a	n/a	n/a
Total				n/a	n/a

Note:

(1) There is no Telecoms data included as no volumes were delivered in 2010/11 that were captured by the unit cost framework.

Statement 17: Scotland Other Unit Costs

In £m 2010/11 prices unless stated otherwise

Impact on unit cost factors 2010/11						
	2009/10 net unit cost	2010/11 gross unit cost	Indirect Cost Impact	Work mix impact	2010/11 net unit cost (like-for like)	Net efficiency (like-for-like) %
Plain line (£000/ckm)	254	250	-	-	250	2
S&C (£000/equ)	577	369	-	-	369	36

Appendices to the Regulatory Financial Statements

Appendix A: Reconciliation of RAB to Statutory Railway Network Fixed Assets Valuation

At 31 March 2011

In £m 2010/11 prices unless stated

	£m	£m
Valuations per statutory accounts at 31 March 2011		
Property, plant and equipment – the railway network	39,577	
Investment properties	778	
Unamortised Capital grants	(2,086)	
		38,269
Adjustment for cash flow differences in the Delivery Plan compared to Periodic Review 2008		325
RAB valuation at 31 March 2011 (Statement 2a)		38,594

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

Year ended 31 March 2011

In £m 2010/11 prices unless stated

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2011 per the regulatory Statements (Statement 1)	1,328	1,068	2,396
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets ⁽¹⁾	1,217		1,217
Reactive maintenance expenditure		61	61
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	20		20
CTRL	(15)		(15)
Other	5		5
	1,227	61	1,288
Operating and maintenance expenditure for year ended 31 March 2011 per the statutory accounts	2,555	1,129	3,684

Notes:

(1) This includes depreciation expenses of £1,271m and capital grant amortisation of £54m.

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2011

In £m 2010/11 prices unless stated

	£m	£m
Regulatory income for year ended 31 March 2011 (Statements 1 and 6a)		6,020
Differences between regulatory income and statutory turnover		
Performance regime differences	(184)	
Income from property sales	(12)	
Stakeholders rebates	(112)	
		(308)
Turnover per the statutory accounts for year ended 31 March 2011		5,712

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2011

In £m 2010/11 prices unless stated

	£m	£m
Regulatory debt at 31 March 2011 (Statement 4)		24,476
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Fair value hedging and fair value through profit & loss adjustment	458	
Foreign exchange differences	115	
		573
Net debt per the statutory accounts at 31 March 2011		25,049

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

Year ended 31 March 2011

In £m 2010/11 prices unless stated

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2011 (Statement 1)		3,572
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	392	
Reactive maintenance	(61)	
Capitalised interest	117	
Investment property schemes	(15)	
Other	(8)	
		425
Capital expenditure per the statutory accounts for the year ended 31 March 2011		3,997

Appendix F: Disaggregated Financial Statements

Network Rail is required to produce “shadow” regulatory financial statements for its operational routes for the first time this year. These shadow Statements are not for general publication and are not audited. They are meant to provide the ORR with indicative income and expenditure information for each Operational Route (“route”).

Operational Routes

(1) Network Rail’s income and expenditure can be classified into the following three main categories dependent upon how the items are managed:

(a) directly attributed - route managed. Income and expenditure in this category is currently managed at route level, e.g. signallers. For these items there is a direct alignment between management responsibility and route.

(b) centrally managed - attributable to routes. Income and expenditure in this category is not currently managed at route level, e.g. route based teams managed outside of the operations and maintenance functions. However, even though the management responsibility may not be locally based, the income is earned and costs are incurred locally, so attributing these items to the applicable route is relatively straightforward. For those maintenance and renewals projects that cover more than one route or are network-wide, apportionment is applied using local analysis and direction from the project teams where relevant.

(c) centrally managed – network wide. Income and expenditure in this category is incurred for the whole network or company as whole, e.g. insurance costs. These items can only be allocated to a route by apportioning the income and expenditure across all of the routes. The method for allocating these is train miles. Train miles represents the level of activity on the network and is therefore considered an appropriate driver for the majority of Network Rail’s business costs. Whilst it may be possible to argue that different costs have different drivers, the use of a single metric enables a more transparent disaggregation method for these statements.

(2) Income

The majority of Network Rail’s income falls into the category of Track Access, which is accounted for by TOC/FOC/Non-Franchised Operator. The TOC billing system indicates the geographic point where the variable track income has occurred, so these TOC incomes (including Fixed Track, Schedule 4 and Schedule 8) can be accounted for in each route using the billing system information. Network Grant has also been allocated in proportion to this Fixed Track split.

Station, Depot and Other Property income, whilst managed by central teams, is all location based and therefore can be attributed to the appropriate route using local analysis prepared by the franchised estate and property teams.

Any non-direct element on an income line that relates to the entire network is then allocated to each route proportional to the direct element.

Any claims which are commercially sensitive are not allocated to a route, but accounted for centrally outside of the route disaggregation. Disclosing such data is considered to prejudice seriously the outcome of any dispute. These central adjustments will mean that the total values for all the routes in the “shadow” Statements will not necessarily agree to the Great Britain figures. The costs of settlement are recognised in the applicable route once the dispute has been resolved.

(3) Operating Expenditure

Operating Expenditure follows the principles set out in (1) for each cost category; that is, it is the sum of the direct, attributable and network-wide costs. Network Rail is split into various functions, each of which has been designated as belonging to one of these three categories based on the nature of their operations i.e. being directly attributable route-managed, centrally managed – attributed to routes or centrally managed – network wide.

Appendix F: Disaggregated Financial Statements continued

Any claims which are commercially sensitive are not allocated to a route, but accounted for centrally outside of the route disaggregation. Disclosing such data is considered to prejudice seriously the outcome of any dispute. These central adjustments will mean that the total values for all the routes in the “shadow” Statements will not necessarily agree to the Great Britain figures. The costs of settlement are recognised in the applicable route once the dispute has been resolved.

(4) Maintenance Expenditure

Maintenance Expenditure also follows the principles set out in (1) for each cost category i.e. being directly attributable route-managed, centrally managed – attributed to routes or centrally managed – network wide. The Maintenance function is split into routes with a central HQ function. The costs in each route are direct whilst the central HQ function costs have been allocated using local analysis and direction from maintenance teams.

Maintenance costs that exist outside the Maintenance function will be allocated based on the particular function’s category as indicated in (3) i.e. any Maintenance costs incurred by the Property function will have been allocated using local analysis, but any Maintenance costs incurred by the Information Management team will be allocated to the routes on the basis of train miles.

Any claims which are commercially sensitive are not allocated to a route, but accounted for centrally outside of the route disaggregation. Disclosing such data is considered to prejudice seriously the outcome of any dispute. These central adjustments will mean that the total values for all the routes in the “shadow” Statements will not necessarily agree to the Great Britain figures. The costs of settlement are recognised in the applicable route once the dispute has been resolved.

(5) Renewals Expenditure

Renewals Expenditure also follows the principles set out in (1) for each asset class i.e. being directly attributable route-managed, centrally managed – attributed to routes or centrally managed – network wide. The maintenance and operations functions within each route directly deliver their own renewals projects, but other functions such as Asset Management will also deliver projects on behalf of these routes. These costs will be allocated based on the particular function’s category as indicated in (3).

If projects are delivered by central attributable functions, the costs have been split out using local analysis and direction from project teams. There will be projects that exist entirely within a route (which can be wholly allocated to a route) but there are also projects that will cover many routes where local knowledge of the workbanks has been used to allocate spend.

However projects delivered by Network wide functions, such as Information Management and Corporate Services, will be allocated to the routes on the basis of train miles.

Any claims which are commercially sensitive are not allocated to a route, but accounted for centrally outside of the route disaggregation. Disclosing such data is considered to prejudice seriously the outcome of any dispute. These central adjustments will mean that the total values for all the routes in the “shadow” Statements will not necessarily agree to the Great Britain figures. The costs of settlement are recognised in the applicable route once the dispute has been resolved.

(6) Enhancements Expenditure

Enhancements Expenditure also follows the principles set out in (1) for each Enhancement category i.e. being directly attributable route-managed, centrally managed – attributed to routes or centrally managed – network wide. The maintenance and operations functions within each route directly deliver their own enhancements projects, but other functions such as Thameslink or Track will also deliver projects on behalf of these routes. These costs will be allocated based on the particular function’s category as indicated in (3).

Appendix F: Disaggregated Financial Statements continued

If projects are delivered by central attributable functions, the costs have been split out using local analysis and direction from project teams. For example, there will be projects that exist entirely within a route (which can be wholly allocated to a route) but there are also projects that will cover many routes where local knowledge of the workbanks has been used to correctly allocate spend.

However projects delivered by Network wide functions, such as Information Management and Corporate Services, will be allocated to the routes on the basis of train miles.

Any claims which are commercially sensitive are not allocated to a route, but accounted for centrally outside of the route disaggregation. Disclosing such data is considered to prejudice seriously the outcome of any dispute. These central adjustments will mean that the total values for all the routes in the "shadow" Statements will not necessarily agree to the Great Britain figures. The costs of settlement are recognised in the applicable route once the dispute has been resolved.

(7) Wales and Mersey

Wales and Mersey are not operational routes but subsets of Western and LNW respectively, which are provided for information only.

Strategic Routes

Part of the required disclosures within the "shadow" regulatory financial statements is to provide renewals and maintenance data for each of the seventeen "Strategic Routes", as specified by ORR in the Regulatory Financial Statement templates. Renewal and maintenance data for each Operational Route is allocated to Strategic Routes on the basis of train miles. This provides an indicative level of renewals and maintenance costs applicable for each Strategic Route.

Future Developments

We are developing disaggregated information further in order to establish budgets for the first routes to be devolved and then for the rest of the network, and as such we expect the split between directly attributed route managed costs and centrally managed network-wide costs to change as the devolution process continues. Hence, over time we would expect all disaggregated figures to become more directly attributed and less apportioned as the new route managing directors and their teams are established.