



Network Rail Infrastructure Limited
Regulatory Financial Statements

Year ended 31 March 2015

Directors' Review

In £m 2014/15 prices unless stated otherwise

Introduction

These Regulatory financial statements mark the end of the first year of Control Period 5 (CP5), our five year regulatory settlement. The settlement allows the Office of Rail and Road (ORR) and Network Rail to take a fresh look at how much money is needed to deliver the required outputs across the control period.

Part of building a sustainable railway is making it more affordable for tax payers, passengers and freight users. Coming into this control period Network Rail has been able to lower its charges, as part of the new regulatory settlement, because of: reductions in the underlying cost base; and by reducing the returns required because of the existing equity built up in the business through profitable trading over the previous decade.

The demand for the railway network continues to grow and Network Rail has delivered over £6bn of investment in the year to help meet this. Growth in the capability of the railway network will assist in making the railway of the future more affordable, by increasing capacity, as well as driving improvements in the country's economic wellbeing.

This year Network Rail continued to invest heavily in enhancing and renewing the network. The delivery of key projects such as Thameslink & Crossrail, Borders Rail and Edinburgh-Glasgow improvements, Reading and Birmingham New Street, as well as commencing some major electrification programmes will provide a better railway for Britain.

This review will focus on the financial performance achieved by Network Rail in the first year of CP5. In particular focussing on:

- Income - how it differs from the determination
- Operating costs – the running costs of the railway, including amounts payable to operators under performance regime mechanism
- Capital investment – investing in new assets is helping to deliver a network better able to cope with Britain's increasing demand for rail services
- Financing costs
- Regulatory Asset Base – a key building block in the regulator's determination of access charges and a fundamental part of the railway network valuation
- Net debt (financial framework)

Directors' Review continued

In £m 2014/15 prices unless stated otherwise

Financial Review of the Year

Summary income and expenditure comparison to the PR13 2014/15

		2014-15	
	Actual	PR13	Difference
Income			
Grant Income	4,164	4,137	27
Fixed Income	440	425	15
Variable Income	1,066	1,023	43
Other Single Till Income	776	800	(24)
Opex memorandum account	-	-	-
Total Income	6,446	6,385	61
Operating expenditure			
Network operations	489	445	(44)
Support costs	417	489	72
Traction electricity, industry costs and rates	561	520	(41)
Network maintenance	1,186	1,143	(43)
Schedule 4	199	213	14
Schedule 8	109	4	(105)
Total operating expenditure	2,961	2,814	(147)
Capital expenditure	-	-	-
Renewals	2,949	2,625	(324)
PR13 enhancement expenditure	2,776	2,983	207
Non PR13 enhancement expenditure	143	-	(143)
Total capital expenditure	5,868	5,608	(260)
Other expenditure			
Financing costs	1,403	1,654	251
Corporation tax	(4)	4	8
Rebates	-	-	-
Total other expenditure	1,399	1,658	259
Total expenditure	10,228	10,080	(148)

Income

This is the first of a new five year of control period (CP5). As planned, our charges have been re-baselined by the ORR. Savings we achieved over preceding years are being shared with our customers and funders through lower charges.

Grant income, fixed and variable charges

Network Rail receives most of its income from government and train operators. The amount received in 2014/15 was higher than the regulator assumed. Higher grant income was received as a result of inflation differences between the amounts government pays Network Rail and the amount the inflation uplift expected by the regulator. Fixed income benefitted from Network Rail offering additional services to train operators. Variable income benefitted from extra train paths provided to operators but also from higher electricity traction charges. This is offset by higher traction electricity costs incurred by Network Rail.

Directors' Review continued

In £m 2014/15 prices unless stated otherwise

Other single till income

Other single till income was lower than the PR13 target. This was mostly due to financing income assumed by the regulator which did not materialise. There is an offsetting saving which Network Rail has made in its financing costs so there is no impact when assessing financial performance. Excluding the impact of this, Other single till income was slightly favourable to the determination targets as additional station and depot facilities provided to operators more than offset lower than assumed income generated from Network Rail's commercial property estate.

Income is disclosed in more detail in Statements 6a and 6b.

Operating expenditure

Network operations, Support and Network maintenance

Network operations costs were higher than the determination assumed. This was planned as the 2013 Periodic Review expected Network Rail would exit the previous control period with a much lower signalling cost base than it did. As most of the Network operations costs relate to signallers' costs, achieving the cost reductions assumed by the regulator was doubtful from the outset.

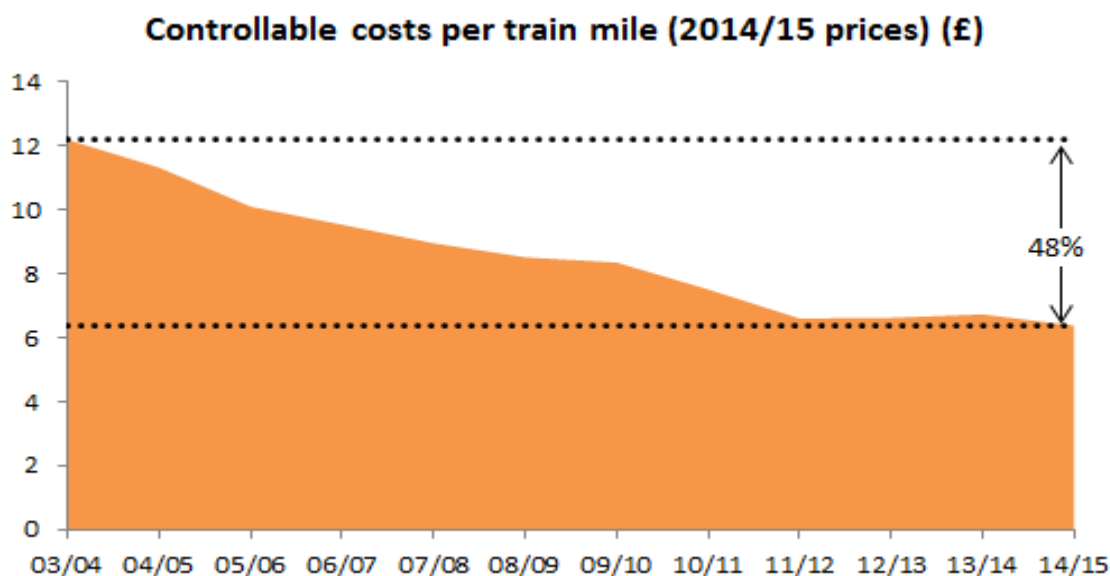
Support expenses were noticeably lower than the determination. This was partly due to some non-recurring items which benefitted the 2014/15 result. These included: the ORR financial penalty for train performance in 2013/14 was lower than expected, board's decision to reduce incentive payments to senior management (the saving was used to partly fund maintenance initiatives) and lower than expected redundancy expenses as displaced staff found alternative roles within the organisation. Removing the impact of these one-off items Support costs were in line with the determination.

Network maintenance costs were higher than the regulator assumed. This was largely as a result of specific initiatives undertaken to improve the lineside safety and performance of the network. This was partly funded through the board's decision to reduce incentive payments to senior management as noted above.

One way to look at cost efficiency is the operating costs per train mile. These costs are 5 per cent better than previous year reflecting the increase in number of services run on the network and real terms cost efficiencies achieved in the year. This growth, though clearly welcome, impacts the reliability of the train services as the network becomes more congested.

Directors' Review continued

In £m 2014/15 prices unless stated otherwise



Network operations and Support variances are discussed in more detail in Statement 7. Additional information about Maintenance costs is set out in Statement 8.

Traction electricity, industry costs and rates

Traction electricity, industry costs and rates were higher than the regulatory target. This was mostly due to higher traction electricity costs that Network Rail pays to electricity providers. As the majority of these costs are passed onto operators, there is an offsetting outperformance in Variable income. Traction electricity, industry costs and rates are disclosed in more detail in Statement 7a.

Performance regime

Network Rail is at risk of reductions in receipts from train operators (passenger and freight) for worse than expected train performance. When performance drops below the benchmarks determined by ORR, Network Rail pays compensation to operators. Delays include those for planned engineering works and unplanned due to a variety of operational factors.

Compensation paid to train operators reduced by £109m compared to 2013/14. The decrease in performance penalties compared to the previous year reflects the recalibration of the performance regime by the regulator. Although delay minute benchmarks have reduced, the rates of compensation have also increased across nearly all operators.

Compensation costs were higher than the regulator assumed. Although a large amount of this was expected in Network Rail's business plan, infrastructure failures and network congestion also contributed to the extra costs.

Directors' Review continued

In £m 2014/15 prices unless stated otherwise

Capital expenditure (Renewals and Enhancements)

We delivered £6.3bn in the network in the year (£0.4bn of which was paid for directly by third parties), continuing the historically high levels of delivery.

We spent £3.4bn, a record in terms of work delivered, on enhancements increasing the capacity of the network. The portfolio includes major projects, such as Thameslink, Crossrail, Birmingham Gateway, Borders Rail and Great Western Electrification and smaller scale improvements works such as platform lengthening, power supply strengthening and providing and enhancing disabled access.

These projects are transforming the railway network and will make a major difference to rail users in London & South East England, Scotland, Wales as well as the Midlands and Northern England.

We have also invested £2.9bn renewing both our railway's assets, such as track, signalling and civils, and in information management and asset information technologies.

Additional information about Renewals expenditure is presented in Statement 9a. There is more information on Enhancements costs in Statement 3.

Other expenditure (Financing costs)

Financing costs were lower than the regulatory target. This was mostly due to lower interest rates. Approximately half of Network Rail's net debt is linked to inflation (as measured by RPI). As the value of Network Rail's RAB is also subject to movement in RPI this creates a natural hedge as both the value of the network and the debt are expected to increase (or decrease) at the same rate over time. Inflation in 2014/15 was lower than the regulator's assumption in the 2013 Periodic Review resulting in substantial savings in debt and creating a lower level of net debt going forward.

Statement 2: The Regulatory Asset Base (RAB)

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

Subject to certain criteria established by the ORR and set out in the Regulatory Accounting Guidelines (issued in April 2014), each year capital expenditure is added to the RAB and amortisation is deducted. The ORR can make deductions from the RAB in the event that we do not achieve our required outputs, for example not meeting required train performance or missing enhancement milestones, or where the ORR wishes to make a retrospective funding adjustment. These adjustments are determined by the ORR and we have no right of appeal. The valuation of the RAB should be considered provisional until the ORR undertakes an ex-post efficiency review after the end of CP5.

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

Directors' Review continued

In £m 2014/15 prices unless stated otherwise

Statement 4: Net Debt

Following the decision to reclassify Network Rail as a public sector body the Government decided that, to maximise overall taxpayer value for money, Network Rail would cease to raise debt independently and instead borrow directly from Department for Transport. The policy applies to both the borrowing required for new investment and refinancing of existing debt.

The regulatory settlement and DfT loan agreement provide strong security for future income and financing.

During the year ended 31 March 2015 Network Rail borrowed £6.45bn from DfT. Part of this new debt was used to pay back existing bonds whilst the remainder was used to invest in the railway infrastructure. As a result net debt rose from £32.3bn to £36.5bn.

	2015	2014
	£m	£m
Borrowing to Invest	3,712	1,129
Borrowing to refinance	2,738	3,975
Bonds issued in year	-	5,104
DfT loan drawdown	6,450	-

Summary

2014/15 has been a year of transition for Network Rail, the first year of what is proving to be a very challenging control period settlement. Continued high level of capital investment has been maintained but it has proven to be difficult to achieve the ambitious efficiency and cost reduction targets. Additionally regulatory outputs, particularly in train performance, have been missed.

The fundamentals of the company remain strong. The regulatory settlement and DfT loan agreement provide strong security for future income and financing. Our clear challenge is to continuously improve, to enhance our capability to meet the challenges of the control period settlement.

The Directors' report and the Regulatory financial statements were approved by the Board of Directors on 29 June 2015.

Signed on behalf of the Board of Directors



Mark Carne (Director)



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 2015 and (save as otherwise provided in Condition 11 or the CP5 Regulatory Accounting Guidelines April 2014) on a consistent basis in respect of each financial year;
- prepare the Regulatory financial statements such that, insofar as reasonably practical, the definition of items in primary Statements; the valuation of assets and liabilities; the treatment of income and expenditure as capital or revenue; adjustments in respect of the provision, utilisation, depreciation and amortisation of assets and liabilities; and any other relevant accounting policies shall be consistent with:
 - (i) the ORR's valuation of the Regulatory Asset Base for the purpose of determining access charges; and
 - (ii) the Determination Assumptions for the access review periods specified in the CP5 Regulatory Accounting Guidelines April 2014; (and so that where the presentation of an item in the primary Statements departs from the basis for the Regulatory Asset Base or the Determination Assumptions, a reconciliation shall be included by way of a note);
- include, as a primary Statement, a Statement of regulatory financial performance comparing income and expenditure for the access review periods specified in the CP5 Regulatory Accounting Guidelines April 2014 with the Determination Assumptions;
- include all details reasonably necessary to reconcile items included in the primary financial Statements with any corresponding items in annual statutory accounts for the access review periods specified in the CP5 Regulatory Accounting Guidelines April 2014;
- include narrative explaining the material variances from the previous year (where required by CP5 Regulatory Accounting Guidelines April 2014) and from the Determination Assumptions; and
- include the confirmation required under Condition 3.3 that the Licence holder shall provide, from time to time as requested by the ORR and in any event every year in the Regulatory financial statements it prepares pursuant to Condition 11, confirmation that, in respect of the financial year to which the Statements relate, it has complied, and, in respect of the following financial year, it is likely to comply, with Condition 3.1 and (where applicable) with Condition 3.2 and, if so requested by the ORR, evidence in support of that confirmation.

In addition the directors are responsible for selecting suitable accounting policies where these are not directed by CP5 Regulatory Accounting Guidelines April 2014 and for making judgements and estimates that are reasonable and prudent.

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

In accordance with the CP5 Regulatory Accounting Guidelines April 2014 the statutory financial statements are submitted to the ORR along with these Regulatory financial statements to enable a comparison. It should be noted that these statutory financial statements, which do not form a part of the Regulatory financial statements, are covered by a separate audit engagement and opinion and are submitted for information only.

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

Report on the regulatory financial statements

Our opinion

In our opinion the Regulatory financial statements, defined below:

- 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 page 15, the state of the Company's financial position at 31 March 2015 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Regulatory financial statements for the year ended 31 March 2015, which are prepared by Network Rail Infrastructure Limited (the "Company"), comprise:

- Statement (separately for GB, England and Wales and Scotland and Routes except where stated below)("referred to collectively as "Statement") 1: Summary regulatory financial performance;
- Statement 2a: RAB – regulatory financial position;
- Statement 2b: RAB – reconciliation of expenditure;
- Statement 3: Analysis of enhancement capital expenditure;
- Statement 4: Net debt and financial ratios;
- Statement 6a: Analysis of income;
- Statement 6b: Analysis of other single till income (excluding Routes);
- Statement 6c: Analysis of income by operator (excluding Routes);
- Statement 7a: Analysis of operating expenditure;
- Statement 7b: Analysis of operating expenditure by activity (excluding Routes);
- Statement 7d: Overhead reconciliation (excluding Routes);
- Statement 8a: Summary analysis of maintenance expenditure;
- Statement 8b: Summary analysis of maintenance headcount by activity (excluding Routes);
- Statement 8c: Analysis of maintenance expenditure by Maintenance Delivery Unit (MDU) (excluding Routes);
- Statement 8d: Analysis of maintenance headcount by Maintenance Delivery Unit (MDU) (excluding Routes);
- Statement 9a: Summary analysis of renewals expenditure;
- Statement 9b: Detailed analysis of renewals expenditure (excluding Routes);
- Statement 10: Other information;
- A: Reconciliation of RAB to Statutory Railway Network Fixed 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;
- E: Reconciliation of Regulatory Capital Expenditure to be added to the RAB to Statutory Capital Expenditure; and
- F: Reconciliation of Regulatory Financing Costs to Statutory Interest Expense.

The financial reporting framework that has been applied in their preparation comprises the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

As set out in the Regulatory Accounting Guidelines, we have not audited the other statements contained within the Regulatory financial statements.

Basis of preparation

In forming our opinion on the Regulatory financial statements, which is not modified, 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.

What an audit of Regulatory financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”). An audit involves obtaining evidence about the amounts and disclosures in the Regulatory financial statements sufficient to give reasonable assurance that the Regulatory financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the Regulatory financial statements.

In addition, we read all the financial and non-financial information in the Regulatory financial statements (the “Regulatory Annual report”) to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. 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 are consistent with those used in the preparation of the statutory financial statements of Network Rail Infrastructure Limited. 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.

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.

Responsibilities for the Regulatory financial statements and the audit

Our responsibilities and those of the Directors and the Regulator

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, 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 in accordance with ISAs (UK and Ireland), except as stated in the 'What an audit of Regulatory financial statements involves' section above, 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 regulatory licence dated 31 March 1994 as amended on 2 July 2004, 12 April 2007, 1 April 2009, 31 March 2010 and 1 March 2014 (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.

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 is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2015 on which we reported on 10 June 2015, 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
30 June 2015

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 2013, which comprise:

- Statement 5a: Total financial performance;
- Statement 5b: Renewals variance analysis in total financial performance;
- Statement 5c: Enhancement variance analysis in total financial performance;
- Statement 5d: REBS performance;
- Statement 12: Analysis of Network Rail's performance on the volume incentive;
- Statement 13: Maintenance volumes, unit costs and expenditure;
- Statement 14: Renewals volumes, unit costs and expenditure;

Respective responsibilities of directors and reporters

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the regulatory financial statements in accordance with Condition 11 of the Network Licence. As stated in Clause 2.28 of the Regulatory Accounting Guidelines (RAGs) dated April 2015, 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.

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

Yours faithfully.

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

Stefan J Sanders
Named Independent Reporter
Ove Arup & Partners Ltd
30 June 2015

Accounting policies

Basis of preparation

Regulatory financial statements are required to be prepared by Network Rail Infrastructure Limited under the terms of its Network Licence dated 31 March 1994, as amended ("the Licence"). The form of the Regulatory financial statements is specified in Condition 11 of the Licence and the Statements must be prepared in accordance with detailed CP5 Regulatory Accounting Guidelines issued by ORR under Condition 11 in April 2014.

The accounting policies adopted in presenting these Regulatory financial statements are consistent with the CP5 Regulatory Accounting Guidelines ("RAGs") issued by the ORR in April 2014. These are consistent with those detailed in the Company's statutory financial statements for the year ended 31 March 2015 which were approved by the Directors on 10 June 2015 and will be filed with the Registrar of Companies in July 2015 with the following exceptions:

Inflation

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

Regulatory Asset Base

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

Depreciation and amortisation

In the statutory accounts the average railway network fixed asset valuation is depreciated on a straight line basis over its estimated weighted average remaining useful economic life (currently 30 years). No depreciation is provided in these Regulatory financial statements. The RAB is amortised as detailed in the ORR Periodic Review 2013. The opening RAB at 1 April 2014 is subject to amortisation based on the average long-run steady state capital expenditure as determined by the ORR.

Debt

In accordance with the RAGs Annex D Licence Condition 3, debt is calculated by reference to the principal amount outstanding of any such financial indebtedness. No mark to market value is used to calculate its amount. Where financial indebtedness is denominated in a foreign currency, hedged by a derivative, the principal amount is calculated by reference to the sterling amount payable under the relevant derivative.

Capitalised interest

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

Accounting policies continued

Pensions

Pension expenses in the Regulatory financial statements are accounted for as employer's contributions fall due. In the statutory accounts, the pension expenses also include any adjustment required to reflect the results of the actuarial valuation of the current service cost. Interest in the statutory accounts also includes the expected return on assets less interest on liabilities in respect of defined benefit pension schemes.

Turnover

For Regulatory financial statements purposes, income does not include schedule 4 & 8 performance amounts, but does include the access charge supplement. Also, income in the Regulatory financial statements includes profit on the disposal of properties. In the statutory accounts, profit on the sale of properties is shown as a separate item in the Income Statement to comply with IAS1 'Presentation of Financial Statements'. For Regulatory financial statements purposes the net income earned by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) is included within income to be consistent with the treatment in the ORR Periodic Review 2013. For statutory purposes Network Rail (High Speed) Limited net income appears within operating costs.

Basis of disaggregation

No segmental analysis is provided in the statutory financial statements because Network Rail operates one class of business, that of managing the national rail infrastructure, and undertakes that class of business in one geographic location, Great Britain, and is outside the scope of IFRS 8 'Operating Segments'.

However, for the Regulatory financial statements Network Rail is obliged to present information about the performance of the business for all of its ten operational routes. The principles of how this information is derived is set out below.

Operational Routes

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

- (a) directly managed - income and expenditure which is managed by the local route leadership team. This is assigned directly to each route. Directly attributable activities are those where there is clear management accountability for activity and costs. This is reflected in the general ledger accounting system with cost centres being directly attributable to individual routes. All of these costs/ revenues are included in the route income and expenditure reported in the regulatory financial statements. Examples include signaller costs or capital expenditure implemented by the route-managed works delivery team
- (b) central costs – directly influenced - income and expenditure which is the responsibility of central functions. However, decisions and actions taken by the individual routes can affect the company wide costs. This covers items where the route is consuming a service from central functions and are charged in proportion to the amount of service they utilise. This would include items such as capital expenditure delivered by Network Rail's project delivery team (Infrastructure Projects). These costs can be attributed to the route directly

Accounting policies continued

- (c) central costs – route identifiable - income and expenditure which is the responsibility of central functions where route leadership teams have little direct influence. However, the geographic location of activity giving rise to the income and expenditure is readily ascertainable. This would include many of the operations of Network Rail's property team such as income from commercial lettings, rental of retail premises at stations managed by Network Rail and sales of parts of the railway estate. In these circumstances it is possible to assign the costs/ income to the applicable operational route

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

Statement 1: Summary regulatory financial performance, Great Britain

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	4,164	4,137	27	3,855
Fixed Income	440	425	15	1,493
Variable Income	1,066	1,023	43	787
Other Single Till Income	776	800	(24)	755
Opex memorandum account	-	-	-	-
Total Income	6,446	6,385	61	6,890
Operating expenditure				
Network operations	489	445	(44)	484
Support costs	417	489	72	630
Traction electricity, industry costs and rates	561	520	(41)	557
Network maintenance	1,186	1,143	(43)	1,151
Schedule 4	199	213	14	170
Schedule 8	109	4	(105)	217
Total operating expenditure	2,961	2,814	(147)	3,209
Capital expenditure				
Renewals	2,949	2,625	(324)	3,576
PR13 enhancement expenditure	2,776	2,983	207	1,601
Non PR13 enhancement expenditure	143	-	(143)	1,419
Total capital expenditure	5,868	5,608	(260)	6,596
Other expenditure				
Financing costs	1,403	1,654	251	1,456
Corporation tax (received)/paid	(4)	4	8	(5)
Rebates	-	-	-	145
Total other expenditure	1,399	1,658	259	1,596
Total expenditure	10,228	10,080	(148)	11,401

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

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was higher than the determination mostly due to higher electricity costs that Network Rail could pass onto operators. This is offset by higher Operating expenditure. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is lower than the determination due to some changes in the way certain capital programmes are funded. This is offset by a corresponding saving in interest. Excluding this, income is higher than the determination as set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – there is a minor amount reported this year. This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as delays in implementing efficiency initiatives. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher electricity costs which are largely recovered from operators through income. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination and the previous year which is mostly a result investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination from a combination of efficiencies and deferral of renewals activities. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Operating expenditure - Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets for the first year of the control period. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure is less than the determination which is a combination of efficient overspends more than offset by re-profiling of programme delivery. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

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

in £m 2014-15 prices unless stated

- (17) Other expenditure – Corporation tax - the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.
- (18) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

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

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices) [1]	46,454	46,454	-
Indexation to 2013-14 prices	1,229	1,229	-
Opening RAB for the year (2013-14 prices)	47,683	47,683	-
Indexation for the year	946	946	-
Opening RAB (2014-15 prices)	48,629	48,629	-
Adjustments for the actual capital expenditure outturn in			
CP4 [2]	1,187	-	1,187
Renewals	2,754	2,625	129
PR13 enhancements	2,743	2,928	(185)
Non-PR13 enhancements	111	-	111
Total enhancements	2,854	2,928	(74)
Amortisation	(2,389)	(2,389)	-
Adjustments for under-delivery of regulatory outputs [3]	(6)	-	(6)
Closing RAB at 31 March 2015	53,029	51,793	1,236

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	48,629
Adjustments for the actual capital expenditure outturn in	
CP4	1,187
Renewals	2,754
PR13 enhancements	2,743
Non-PR13 enhancements	111
Total enhancements	2,854
Amortisation	(2,389)
Adjustments for under-delivery of regulatory outputs	(6)
Closing RAB	53,029

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

in £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment (RAB increase £92m) – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was a combination of re-profiling activity from future years, expenditure rolled over from CP4 (for which the regulator adjusted the renewals allowances) offset by some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was lower than the regulator assumed. This was due to a deferral of enhancement activity and efficient overspends compared to the funding available (the value of which cannot all be logged by to the RAB). The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM in England & Wales and Scotland and CaSL in England & Wales) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position. The missed outputs for the RAB this year relate to the estimated impact of missed enhancement milestones with a number of projects contributing to the value this year including: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development. This is an assessment based on information available but the regulator retains discretion over the final level of adjustment to be made.

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

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Renewals	
Renewals per the PR13 determination	2,625
Adjustments to the PR13 determination	
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	226
Capitalised financing on CP4 deferrals	5
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (renewals)	2,856
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(706)
Capitalised financing on acceleration / (deferrals) of expenditure	(15)
Adjustments for efficient overspend	744
Capitalised financing on efficient overspend	16
25% retention of efficient overspend	(186)
Capitalised financing on efficient overspend 25% retention	(4)
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing on efficient underspend 25% retention	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments for efficient overspend through spend to save framework	60
Capitalised financing on efficient overspend through spend to save framework	1
20% retention of efficient overspend through spend to save framework	(12)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other adjustments	-
Capitalised financing on other adjustments	-
Total Renewals (added to the RAB - see Statement 2a)	2,754
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	(3)
Adjustment for retention of efficient overspend (including spend to save adjustment)	198
Adjustment for retention of efficient underspend	-
Other adjustments	-
Total actual renewals expenditure (see statement 9)	2,949

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

in £m 2014-15 prices unless stated

Total as at 31/03/15

Enhancements	
Enhancements per the PR13 determination	2,928
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	198
Capitalised financing on CP4 deferrals	4
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	(155)
Capitalised financing on adjustments to DfT funding	(4)
Other adjustments	25
Capitalised financing on other adjustments	1
Adjusted PR13 determination (enhancements)	2,997
Adjustments in accordance with the PR13 RAB roll forward policy	-
Adjustments for acceleration / (deferral) of expenditure within CP5	(362)
Capitalised financing on acceleration / (deferrals) of expenditure	(8)
Adjustments for efficient overspend	72
Capitalised financing on efficient overspend	2
25% retention of efficient overspend	(18)
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	66
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	(11)
Capitalised financing relating to projects with tailored protocols or fixed price	1
Adjustments for efficient overspend through spend to save framework	5
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	2,743
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	124
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(15)
Capitalised financing on non-PR13 enhancements expenditure	2
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	-
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	111
Total enhancements (added to the RAB - see statement 2a)	2,854
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	2
Adjustment for retention of efficient overspend (including spend to save adjustment)	45
Other adjustments (including discretionary investment)	19
Adjustment for retention of efficient underspend	-
Non-PR13 enhancement expenditure	
Third party funded schemes	474
Other adjustments	(1)
Total actual enhancement expenditure (see statement 3)	3,393

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

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (10) Enhancements – ECAM adjustments – Many of the enhancement programmes included in the PR13 were still at an early planning stage at the time of the determination. Therefore, the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs of the programmes. As a result the determination allowances for the current year have been altered to reflect the additional funding provided for programmes which have now been through the ECAM process.
- (11) Enhancements – Adjustments to DfT funding – the DfT have decided to change the funding of parts of the GW Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, this reducing the amount of investment added to the RAB.

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

in £m 2014-15 prices unless stated

- (12) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (13) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (14) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (16) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which is not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ overspend that Network Rail retains. As shown in Statement 5c, the effective rate of Thameslink overspends that Network Rail retains is 16.5 per cent based on the current level of anticipated total programme costs.
- (17) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will receive the other 20 per cent of the expense through additional income during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (18) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (19) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB. In this instance, the difference mostly relates to overspends against the investment framework allowance on the Swindon-Kemble programme and spend to save investments.
- (20) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to expenditure on Manchester Victoria station redevelopment and CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition.

Statement 3: Analysis of enhancement capital expenditure, Great Britain

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Funds			
East coast connectivity	9	2	(7)
Stations - National Station Improvement Programme (NSIP)	10	29	19
Stations - Access for All (AfA)	29	62	33
Development	61	30	(31)
Level crossing safety	12	23	11
Passenger journey improvement	1	65	64
The strategic rail freight network	62	72	10
Scottish stations fund	3	8	5
Scottish strategic rail freight investment fund	3	6	3
Scottish network improvement fund	1	14	13
Future network development fund	-	2	2
Total funds	191	313	122
Committed projects			
Thameslink	500	442	(58)
Crossrail	401	436	35
GW electrification (Paddington to Cardiff)	296	248	(48)
Adjustment for DfT funding - GW electrification	(73)	(73)	-
Bridgend to Swansea electrification	4	2	(2)
East West Rail (committed scheme)	143	34	(109)
Northern Hub	165	88	(77)
IEP Programme	70	105	35
North Trans Pennine Electrification East	16	65	49
North Trans Pennine Electrification West	3	17	14
NW Electrification	35	98	63
Reading station area redevelopment	108	116	8
Adjustment for DfT funding - Reading station area redevelopment	(82)	(82)	-
Stafford area improvement scheme	53	51	(2)
West coast power supply upgrade	56	66	10
Edinburgh Glasgow Improvements Programme (EGIP)			
Electrification of Springburn to Cumbernauld	9	16	7
Edinburgh Glasgow Improvements Programme (EGIP)			
Edinburgh to Glasgow Electrification	54	72	18
Edinburgh Glasgow Improvements Programme (EGIP)			
Edinburgh Gateway Station	7	39	32
Edinburgh Glasgow Improvements Programme (EGIP)			
Infrastructure Projects	20	72	52
Border Railway Project	162	159	(3)
Total committed projects	1,947	1,971	24
Named schemes			
The Electric Spine:			
MML electrification	52	68	16
MML Leicester Capacity (aka F2N Syston - Wigston)	-	-	-
Derby station area remodelling	3	-	(3)
Leamington to Coventry capacity	-	-	-
Oxford – Leamington – Coventry - Nuneaton electrification (Electric Spine)	-	-	-
Basingstoke to Southampton DC to AC conversion	-	-	-
MML Capacity (Bedford-Sharnbrook-Kettering-Corby) plus W12	-	-	-
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	-	-
Basingstoke - Reading electrification (Electric Spine)	-	-	-
Electric spine (DfT SoFA amount)	22	8	(14)
Total Electric Spine	77	76	(1)

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

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Thames Valley:			
Acton to Willesden electrification (WCML)	-	7	7
Thames Valley branches	-	2	2
Oxford Station area capacity and station enlargement	4	1	(3)
Total Thames Valley	4	10	6
Midlands			
Walsall to Rugeley electrification	16	15	(1)
Total Midlands	16	15	(1)
Yorkshire			
Huddersfield station capacity improvement	-	-	-
Total Yorkshire	-	-	-
Airports & Ports:			
Western access to London Heathrow Airport	2	6	4
Service Improvements in the Ely Area	-	1	1
Redhill additional platform	1	2	1
Total Airports & Ports	3	9	6
South East			
Waterloo	8	1	(7)
Total South East	8	1	(7)
West			
Dr Days to Filton Abbey Wood capacity improvements	3	6	3
Bristol Temple Meads passenger capacity (incl. Digby Wyatt Shed)	-	3	3
Total West	3	9	6
Scotland			
Aberdeen to Inverness journey time improvements and other enhancements	6	39	33
Rolling programme of electrification (Scotland)	29	12	(17)
Carstairs journey time improvements	2	-	(2)
Highland main line journey time improvements (phase 2)	1	33	32
Motherwell area stabling	-	2	2
Motherwell resignalling enhancements	-	1	1
Edinburgh South Suburban Electrification	-	-	-
Total Scotland	38	87	49
HLOS capacity metric schemes			
Leeds and Sheffield Capacity	-	2	2
South London HV traction power upgrade	1	4	3
West Anglia main line capacity increase	2	-	(2)
Bow Junction upgrade with Chelmsford & Wickford turnbacks	2	1	(1)
West of England DMU capability works	-	5	5
East Kent resignalling phase 2	25	31	6
Stevenage and Gordon Hill turnbacks	1	1	-
Reading, Ascot to London Waterloo train lengthening	1	1	-
Uckfield line train lengthening	1	1	-
MML long distance high speed services train lengthening	1	2	1
Route gauge Clearance for different EMUs	2	3	1
Bradford Mill Lane capacity	-	-	-
Leeds station capacity	-	3	3
Chiltern Main Line Train Lengthening	6	1	(5)
North West train lengthening	-	3	3
New Cross Grid	2	15	13
Anglia traction power supply upgrade	3	7	4
Sussex traction power supply upgrade	1	5	4
Wessex traction power supply upgrade	5	4	(1)
London Victoria station capacity improvements	1	1	-
Kent traction power supply upgrade	3	6	3
LNE routes traction power supply upgrade	-	17	17
Total HLOS capacity metric schemes:	57	113	56

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

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Third party funded			
Welsh Valley lines electrification	2	10	8
Total Third Party funded	2	10	8
CP4 Project Rollovers			
Birmingham New St Gateway	99	68	(31)
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	7	5	(2)
Redditch Branch Enhancement	17	16	(1)
Kent power supply upgrade (CP4)	37	26	(11)
Barry - Cardiff Queen Street corridor	11	13	2
Capacity relief to the ECML	72	80	8
North Doncaster Chord	-	2	2
East Coast mainline overhead electrification	-	2	2
DC Regeneration	1	1	-
Package 4, Gravesend Train Lengthening	-	-	-
Package 7,10 Car Park West Suburban Railway	15	11	(4)
Wessex Automatic Selective Door Opening	1	-	(1)
Battersea Park Station Platform Lengthening	-	1	1
Gatwick Airport Remodelling and Passenger Capacity	4	5	1
East Croydon Passenger Capacity Scheme	1	1	-
MML linespeed improvements	21	18	(3)
Westerleigh Junction - Barnt Green linespeed increase	-	-	-
Station Security	-	2	2
Other CP4 Rollover	-	-	-
Total CP4 rollovers	286	251	(35)
Other projects			
Seven day railway projects	17	12	(5)
ERTMS Cab fitment	9	8	(1)
R&D allowance	3	10	7
Depots and stabling	18	-	(18)
Income generating property schemes	97	49	(48)
Other income generating investment framework schemes	-	39	39
Total other projects	144	118	(26)
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	2,776	2,983	207
B) Investments not included in PR13			
Government sponsored schemes			
Swindon Kemble Redoubling	24	-	(24)
NHub Huyton & Roby	21	-	(21)
DNOs clearance work	9	-	(9)
SCPF	19	-	(19)
Tram Train Project	5	-	(5)
Other government sponsored schemes	9	-	(9)
Total Government sponsored schemes	87	-	(87)
Network Rail spend to save schemes			
Mountfield	26	-	(26)
Other spend to save schemes	-	-	-
Total Network Rail spend to save schemes	26	-	(26)
Total Schemes promoted by third parties	11	-	(11)
Discretionary Investment	19	-	(19)
Total non PR13 enhancement expenditure	143	-	(143)
Total Network Rail funded enhancements (see Statement 1)	2,919	2,983	64
Third Party PAYG	474	-	(474)
Total enhancements (see statement 2b)	3,393	2,983	(410)

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

in £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover and funding changes for Great Western Electrification and Reading programmes. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £2,919m (as shown in Statement 1). This comprises the total enhancement figure in the table above £3,393m less the PAYG schemes funded by third parties (£474m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) East Coast connectivity – this fund is used to improvement capacity and reduces journey times on the East Coast main line. The regulator assumed a different profile of expenditure in the determination compared the profile planned by Network Rail resulting in additional expenditure this year but costs during the control period are not expected to exceed the funding available.
 - (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed with the regulator's allowances.
 - (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when investment activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.

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

in £m 2014-15 prices unless stated

- (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. The regulator assumed a different profile of expenditure in the determination compared to the profile planned by Network Rail resulting in additional expenditure this year but costs during the control period are not expected to exceed the funding available.
 - (e) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.
 - (f) The Strategic rail freight network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year was lower than the regulator assumed as work was re-profiled to later years.
 - (g) Scottish stations fund – this fund will be invested in improving the public's access to railway services. Whilst programme delivery was slower than the regulator assumed it was higher than planned in Network Rail's internal targets as work was accelerated into 2014/15. Expenditure in the control period is not expected to exceed the regulatory funding available.
 - (h) Scottish network improvement fund - The purpose of this fund is to deliver, or support the delivery of, interventions on the Scottish network which support the development of the capacity and capability of general infrastructure and network communications systems. Expenditure in the year was lower than the regulator assumed as work was re-profiled to later years
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Spend in the year is higher than the determination which is mostly to underperformance as costs of activity in the London Bridge area (including the station itself) have been higher than planned. This is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (b) Crossrail - This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Although expenditure is less than the PR13 this is all due to re-phasing of expenditure in the control period and so does not count as financial outperformance. Actual expenditure in the year is only slightly behind Network Rail's own internal plans.
 - (c) GW electrification - This project will extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure on the current year was higher than the regulator expected. This is a combination of additional costs and acceleration of activity from future years. The expected costs of this project are higher than the funding settlement set through the ECAM process. As a result Network Rail has recognised financial underperformance (refer to Statement 5a) meaning that not all of the expenditure in the year is eligible for inclusion in the RAB (refer to Statement 2a).
 - (d) East West Rail - The objective of this project is to support economic growth along the line of route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is considerably higher than the PR13 allowance. Whilst there is some minor financial underperformance on this programme (refer to Statement 5a) the main reason for the increase in expenditure is due to acceleration of activity from future years. Network Rail's internal plan for 2014/15 expected to deliver more of the programme in 2014/15 than ORR's assumption.
 - (e) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Costs are significantly higher than the determination assumed as Network Rail is planning to deliver this programme in a different manner and to different timescales than the regulator's expectation.

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

in £m 2014-15 prices unless stated

- (f) IEP Programme - the outputs of this includes infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Although expenditure is lower than the PR13 assumed this is mostly due to re-profiling of the programme delivery to future years. The anticipated costs of the programme exceed the funding available which has resulted in negative FPM being recognised (refer to Statement 5a) and not all of the capital expenditure this year is allowed to be logged up to the RAB (refer to Statement 2a).
 - (g) North Trans Pennine Electrification - This programme facilitates the introduction of electric train operation on passenger and freight services in the north of England. This programme is some way behind the schedule assumed by the regulator meaning that costs in 2014/15 are lower than the PR13 assumed.
 - (h) NW Electrification - This programme facilitates the introduction of electric train operation on passenger and freight services. The programme has synergies with North Trans Pennine Electrification discussed above and as with that programme progress has been slower than planned as Network Rail seeks to identify the optimal project delivery strategy.
 - (i) Reading station area redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. Costs are lower than the determination but no FPM has been recognised yet as there are still some uncertainties about whether these savings can be sustained over the remainder of the programme.
 - (j) West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the NW Electrification programme referred to above. Although costs are lower than the regulator's expectation in 2014/15, the costs of the parts of the project delivered have been higher than planned. As a result financial underperformance has been recognised (refer to Statement 5a). Also, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
 - (k) Edinburgh Glasgow Improvements Programme - The key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. Network Rail's internal targets assumed a different profile of programme deliver to that in the PR13, so the large underspend compared to the regulator's allowance in the year was expected.
- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Midland Mainline electrification - This project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. Expenditure in the year was lower than the regulator assumed. Delays in the year on programme design and plant purchases have resulted in lower than planned costs in the year.
 - (b) Electric Spine – this fund is to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. The regulator's CP5 profile assumed lower costs in earlier years with greater expenditure towards the end of the five-year period. Network Rail have delivered more in the opening year by accelerating parts of the programme from future years.
 - (c) Acton to Willesden electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with Network Rail's internal plan there was limited activity on this project in 2014/15. The regulator assumed that this project would start earlier in the control period than Network Rail planned.
 - (d) Waterloo - This project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. Although expenditure was higher than the PR13 allowance in 2014/15 it was in line with Network Rail's internal budget. Network Rail has planned to deliver this programme to a different timescale than the ORR assumed.

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

in £m 2014-15 prices unless stated

- (e) Aberdeen to Inverness journey time improvements and other enhancements - This project will provide infrastructure to permit trains to call at potential new stations at Kintore and Dalcross without extending average journey times and permit more frequent commuter services to Aberdeen and Inverness. Expenditure in the year was much lower than the regulator's assumption, although it was higher than Network Rail's internal plan as works expected to be undertaken in 2015/16 were bought forward from future years.
 - (f) Rolling programme of electrification (Scotland) - This project will electrify the routes to Stirling, Dunblane and Alloa and the Shotts Line to permit services to be operated by electric trains. Expenditure has been higher than the regulator assumed. However, the regulator's allowance in this statement does not reflect the funding settlement included in the ECAM process so this is not a like-for-like comparison.
 - (g) Highland main line journey time improvements (phase 2) - This project will provide infrastructure to permit the reduction of average end-to-end journey time between Edinburgh / Glasgow and Inverness by 10 minutes. In line with Network Rail's internal plan there was minimal activity on this programme in 2014/15.
- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) West of England DMU capability works - This project will provide infrastructure capability enhancements to enable operation of cascaded DMUs from the Thames Valley to the West Country. In line with Network Rail's internal plan there was minimal activity on this programme in 2014/15.
 - (b) East Kent resignalling phase 2 - This project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Whilst expenditure in the year was lower than the regulator assumed it was in line with Network Rail's internal plan and funding set through the ECAM process.
 - (c) Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. Costs in the year were higher than the PR13 allowance mostly as a result of Network Rail accelerating work from future years but also as a result of higher costs than the ECAM funding. This is reported as financial underperformance (refer to Statement 5a) and not all of the expenditure is eligible for logging up to the RAB (refer to Statement 2a). The PR13 column does not reflect the updated funding arrangements set through the ECAM process so does not provide a useful benchmark.
 - (d) New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure was noticeably lower than the PR13 assumed. Most of this variance was incorporated in Network Rail's internal plan which assumed a different phasing for the delivery of this programme than the regulator's determination.
 - (e) London North East routes traction power supply upgrade - This project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. In line with Network Rail's internal plan activity on this programme was limited in 2014/15.
- (9) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the year was lower than the regulator assumed due to re-profiling of the project into later years. This was largely due to delays finalising the funding for the programme leading to delays in milestones.
- (10) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the PR13 column values in this statement. Notable variance between the funding available and actual spend in 2014/15 in these areas are noted below:

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

in £m 2014-15 prices unless stated

- (a) Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notable Birmingham City Council. The costs of this programme across CP4 and CP5 have been higher than expected. This has resulted in the recognition of financial underperformance in both control periods.
 - (b) Kent Power Supply Upgrade – although expenditure was higher than the PR13 it was in line with Network Rail's internal target. Network Rail's total projected costs for this programme are in line with the regulatory allowance but it is assuming a different delivery profile.
 - (c) Capacity relief to the ECML (East Coast Main Line) – when the regulator provided additional allowances for the completion of this programme they assumed that the project would be completed in the current year. However, Network Rail has deferred elements of the project until next year. Overall, the total programme costs are expected to be in line with the funding available.
- (11) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
- (a) Seven day railway projects – Network Rail has invested this fund quicker than the regulator assumed in the first year of the control period. The seven day railway programme was also available in control period 5 meaning the company has a mature governance process for identifying appropriate projects. This has allowed Network Rail to accelerate funding from future years in order to gain maximum benefit of this fund by investing at the start of the control period.
 - (b) R&D allowance – the regulator assumed that Network Rail would invest this fund evenly over the control period. However, Network Rail have spent more slowly in the first year of the control period as it seeks to identify those schemes which will deliver maximum benefit to the industry. The R&D allowance is a new principle for control period 5 so Network Rail is considering the optimal use of this funding allowance.
 - (c) Depots and stabling – the regulator assumed that activity in this category will be substantially weighted towards future years of the control period whereas Network Rail is planning a more even phasing of expenditure.
 - (d) Income generating property schemes – Network Rail invested more in its commercial property estate than the regulator assumed. This was largely due to additional one-off items such as purchases of sites in Glasgow and Haywards Heath.
 - (e) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (12) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
- (a) Government sponsored – as expected, this is significantly lower than last year. Most of the large programmes funded through this mechanism last year (such as Crossrail, EGIP, Electrification, Borders and Reading) have specific funding in the PR13 regulatory settlement and so the activity is included in the PR13 section of this statement. Intuitively, towards the end of a control period it would be likely that this level of expenditure would be relatively high as most programmes that emerge during the control period are likely to be funded through this mechanism.
 - (b) Schemes promoted by third parties – the major item in this category which accounts for nearly half of the expenditure is the Nottingham Hub programme. Under the machinations of the RAB in CP4 income generated by Network Rail from such schemes was deducted from the total amount of enhancements eligible for RAB addition. In the last year of CP4 the level of capex was lower than the turnover earned from schemes recorded against this heading throughout CP4. Therefore, a negative amount was included in last year's Regulatory financial statements.

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

in £m 2014-15 prices unless stated

- (c) Network Rail Spend to save – acquisition of freight sites and paths. Most of the costs of these acquisitions were incurred in control period 4 and included in last year's Regulatory financial statements.
- (d) Discretionary investment – this relates to expenditure on Manchester Victoria station redevelopment and CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).
- (e) PAYGO – as noted above, this includes elements of the Reading and Great Western Electrification Programme that the DfT has elected to fund in cash to reduce the amount being added to the RAB. Other significant programmes in this category in the current year include: Crossrail, Birmingham Gateway, and North-South Wales Journey Time Reduction. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Great Britain

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	32,300	32,242	(58)
Income			
Grant income	(4,164)	(4,137)	27
Fixed charges	(440)	(425)	15
Variable charges	(1,066)	(1,023)	43
Other single till income	(776)	(800)	(24)
Total income	(6,446)	(6,385)	61
Expenditure			
Network operations	489	445	(44)
Support costs	417	489	72
Traction electricity, industry costs and rates	561	520	(41)
Network maintenance	1,186	1,143	(43)
Schedule 4	199	213	14
Schedule 8	109	4	(105)
Renewals	2,949	2,625	(324)
PR13 enhancement	2,776	2,928	152
Non-PR13 enhancement	143	-	(143)
Total expenditure	8,829	8,367	(462)
Financing			
Interest expenditure on nominal debt - FIM covered	498	531	33
Interest expenditure on index linked debt - FIM covered	240	248	8
Expenditure on the FIM	361	375	14
Interest expenditure on government borrowing	92	-	(92)
Interest on cash balances held by Network Rail	(11)	(10)	1
Total interest costs	1,180	1,144	(36)
Accretion on index linked debt - FIM covered	223	510	287
Total financing costs	1,403	1,654	251
Corporation tax	(4)	4	8
Other	423	511	88
Movement in net debt	4,205	4,151	(54)
Closing net debt	36,505	36,393	(112)

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

	2014-15 £m	2013-14 £m
(£m, nominal prices)		
Increase in net debt	4,205	3,370
Represented by:		
New debt issued	-	-
Market issued debt	-	5,104
Borrowing from government	6,450	-
Accretion on index linked debt	223	298
Debt repaid	(2,378)	(3,975)
Increase in net cash balances	246	2,123
Other	(336)	(180)
Increase in net debt	4,205	3,370

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

in £m nominal unless otherwise stated

C) Analysis of Network Rail's net debt

	2014-15		2013-14	
(£m, nominal prices)	£m	% of total borrowing	£m	% of total borrowing
Market issued debt				
Nominal borrowings (GBP)	7,497	20.1%	9,000	27.0%
Nominal borrowings (Foreign currency)	5,942	15.9%	7,174	22.0%
Total nominal borrowings	13,439	36.0%	16,174	49.0%
Index linked borrowings (GBP)	17,405	46.7%	17,161	51.0%
Borrowing from government	6,450	17.3%	-	0.0%
Total regulatory borrowings	37,294	100.0%	33,335	100.0%
Net cash balances	(789)		(1,035)	
Regulatory net debt as at 31 March	36,505		32,300	

D) Financial indicators

	2014-15 Actual	2014-15 PR13
Adjusted interest cover ratio (AICR)	0.93	1.03
FFO/interest	2.95	3.12
Net debt/RAB (gearing)	68.8%	70.3%
FFO/debt	9.6%	9.8%
RCF/debt	6.3%	6.7%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.2%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on government debt	2.9%	n/a

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

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail's debt has increased by £4.2bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (2) Total debt at 31 March 2015 is £0.1bn higher than the regulator assumed. This is mostly due to higher investment in the railway network and higher performance regime costs partly offset by lower than expected interest costs and favourable working capital movements.
- (3) Income variances are shown in more detail in Statement 6a.
- (4) Network operations variances are shown in more detail in Statement 7a.
- (5) Support costs variances are shown in more detail in Statement 7a.
- (6) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (7) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (8) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (9) Renewals expenditure variances are shown in more detail in Statement 9a.
- (10) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (11) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.

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

in £m nominal unless otherwise stated

- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed. The rates for this type of debt have been generally in line with expectation but, as discussed above, Network Rail has reduced the proportion of index-linked debt held.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(12) Corporation tax – the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.

(13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(14) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 17 per cent of the value of gross debt at the year end is now directly from government.

(15) 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 April 2014. ****Retained cash flow (RCF) is defined as FFO minus net interest.

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Network maintenance costs partly offset by savings in Support costs.

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

in £m nominal unless otherwise stated

(17) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. There has been a significant increase compared to previous year's ratio of 64.5 per cent. This was expected in the regulator's determination and, intuitively, the ratio would be expected to increase in a situation where both components of the calculation are increasing at the same absolute value. The main drivers of this include the regulator's decision to reduce Network Rail's opening CP5 RAB by £1.3bn for a perceived double count of tax (refer to above), reduced turnover in CP5 following ORR's decision to remove Network Rail's risk buffer, and sub-optimal capital expenditure (as noted above). Under the terms of its regulatory licence Network Rail must inform the regulator if it this ratio exceeds 75 per cent, setting out the steps it intends to take to reduce the amount below that limit, or if it expects to exceed 75 per cent in the forthcoming year (Licence Condition 3 – Financial Indebtedness).

in £m 2014-15 prices unless stated

[illegible]

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

in £m 2014-15 prices unless stated

Breakdown of variance not included in total financial performance -	2014-15		Variance not included in total financial performance	Cumulative		
	Actual	Adjusted PR13		Actual	Adjusted PR13	Variance not included in total financial performance
Variable income:						
Adjustments for external traction electricity	(275)	(240)	(35)	(275)	(240)	(35)
Total variance not included in total financial performance:	(275)	(240)	(35)	(275)	(240)	(35)

Breakdown of variance not included in total financial performance -	2014-15		Variance not included in total financial performance	Cumulative		
	Actual	Adjusted PR13		Actual	Adjusted PR13	Variance not included in total financial performance
OSTI:						
Adjustment for Crossrail finance charge	-	30	(30)	-	-	-
Adjustment for Welsh Valleys finance charge	-	1	(1)	-	1	(1)
Total variance not included in total financial performance:	-	31	(31)	-	1	(1)

Breakdown of variance not included in total financial performance -	2014-15		Variance not included in total financial performance	Cumulative		
	Actual	Adjusted PR13		Actual	Adjusted PR13	Variance not included in total financial performance
Support costs:						
Release of CP4 long distance financial penalty provision	23	-	23	23	-	23
Total variance not included in total financial performance:	23	-	23	23	-	23

Breakdown of variance not included in total financial performance -	2014-15		Variance not included in total financial performance	Cumulative		
	Actual	Adjusted PR13		Actual	Adjusted PR13	Variance not included in total financial performance
Traction electricity:						
Adjustments for external traction electricity	275	240	35	275	240	35
Total variance not included in total financial performance:	275	240	35	275	240	35

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

in £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – most of the variance that has arisen is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this element of the variance. Fixed income also includes amounts payable under alliancing agreements. These have been entered into with our alliancing partner in Wessex to incentivise collaborative working to deliver mutual benefits. Any alliancing payments (or receipts) fall within the scope of FPM and so the impact of this is included in the FPM calculation
- (3) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the Traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Other single till income – the regulator's determination assumed that Network Rail would receive income for Crossrail and Welsh Valley financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, this assumption did not come to pass. Instead, the external parties provided the funding directly to Network Rail resulting in lower income. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income to reflect the neutral impact of changes in the funding arrangements. The outperformance recognised in Other single till income is mainly the result of additional income arising from the reclassification of Bristol and Reading stations from leased to managed stations, partly offset by lower property income. Whilst this reclassification gives Network Rail an opportunity to generate more income it also results in higher operating costs that comes with running these extra stations

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

in £m 2014-15 prices unless stated

- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate. The determination assumed that Network Rail would exit the control period with a lower cost base. However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely.
- (7) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included £76.5m (2013/14 prices) in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout to £53.1m, thus resulting in a release of £23m which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (8) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police costs compared to the assumption in the determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.
- (11) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening year of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved. Underlying Network maintenance costs are notably higher than the determination. The main contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs.
- (12) Schedule 4 costs – costs were lower than the regulator assumed. However, not all of these savings have been classed as FPM. Schedule 4 possessions costs are incurred as a result of the level of renewals work undertaken. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to Schedule 4 so that a fair assessment of financial performance can be made.

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

in £m 2014-15 prices unless stated

- (13) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. The determination assumed PPM (industry measure of passenger train lateness) of 92.2 per cent in England & Wales in 2014/15 compared to actual PPM of 89.8 per cent. To bridge this gap in a single year was always going to be unlikely. As a result of this, schedule 8 compensation payments to operators have been higher than ORR assumed.
- (14) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. Negative FPM has been recognised in the year with regard to Swindon-Kemble redoubling programme and Manchester Victoria redevelopment where the expected final costs are higher than the amount the regulator has permitted to be added to the RAB.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.
- (18) Corporation tax – whilst corporation tax variances are within the scope of FPM, it is uncertain that gains made in the current year will continue throughout the control period. Given this uncertainty, no FPM has been recognised at this time and so the saving compared to the PR13 baseline has been treated as neutral for the current year. This will be reviewed and updated in future years.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality targets for both England & Wales and Scotland were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Network Rail also faces a reduction for these missed outputs. In line with the regulator's guidelines, £3m has been included for every 0.1 per cent that England & Wales PPM target of 91.9 per cent was missed by and £0.25m for every 0.1 per cent that Scotland PPM target of 92.0 per cent was missed by.
- (3) CaSL (cancellations and significant lateness) – this train performance metric was missed in England & Wales. In line with the regulator's guidelines, £3m has been included for every 0.1 per cent that this regulatory output was missed by.
- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. There are a number of projects which contribute to the value this year including: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development.

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

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) Due performance to: D	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(140)	204	(344)	(86)	(83)	(3)	-
Signalling	131	279	(148)	(37)	(28)	(9)	-
Civils	(55)	33	(88)	(22)	(11)	(11)	-
Buildings	(15)	9	(24)	(6)	-	(6)	-
Electrical power and fixed plant	123	163	(40)	(10)	(2)	(8)	-
Telecoms	16	24	(8)	(2)	-	(2)	-
Wheeled plant and machinery	93	93	-	-	-	-	-
IT	(70)	(70)	-	-	-	-	-
Property	(1)	3	(4)	(1)	-	(1)	-
Other renewals	(406)	(318)	(88)	(22)	(5)	(17)	-
Total	(324)	420	(744)	(186)	(129)	(57)	-

Where:

C = A - B

D = C x 25%

And:

D = E + F + G

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

in £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable financial underperformance in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Costs in the current year have also suffered from contractor productivity issues as Network Rail has reduced the number of delivery partners it uses as part of its framework contracts which has led to some problems managing the workbanks delivered by those contractors not being retained. Cost improvements were planned to arise from using new technologies and working practices, most notably high output plant. This allows for a full renewal to be completed with minimal possession time, reducing the disruption on passengers. However, this new technology has experienced some emerging issues which has hampered its effectiveness and not delivered the planned cost savings. Cost and budgetary pressures has also resulted in a reduction in volumes planned over the control period. However, there is not a proportionate link between reductions in volumes and reductions in cost and so falling volumes leads to an increase in average costs of each remaining job.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes. Additional scope and cost for Watford, Wolverhampton, Cardiff and Bristol. Signalling FPM has also been impacted by projects rolled over from CP4 for which the ORR has not provided any funding, including some of the ROC (Regional Operating Centre) projects. The delay in completing these project has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned.
- (4) Civils – cost overruns across a number of projects have contributed to the negative Civils FPM this year. Almost all routes have experienced cost increases as not all of the efficiencies targeted in the regulator's determination were achieved which, combined with one-off cost increases on certain projects, resulted in negative FPM. Civils financial underperformance also includes additional costs that have arisen as a result of storm damage and other weather events. Whilst some of this work has been funded by external insurers, some has remained within the organisation. The extra costs of repairing these structures and earthworks is not included in the determination allowances but are required to be completed in order to preserve the operational capability of the railway network.
- (5) Buildings – financial underperformance reported for almost all routes, with the largest contributions coming from Sussex (CP4 rollover projects for which no ORR funding was allowed and challenges towards the end of CP4 on East Croydon station) and London North West (extra scope from projects not finished in CP4 for which ORR did not provide any additional funding).
- (6) Electrical power and fixed plant – financial underperformance reported for almost all routes, with the largest contributions coming from Wessex and London North West (mostly due to extra scope with projects rolled over from CP4 for which ORR did not provide any additional funding).
- (7) Telecoms – in the face of increased challenges in supporting the expanding railway and technological advances a number of additional projects have been identified in the telecoms workbank for CP4. This has increased the total costs of the telecoms asset category over the control period creating negative FPM, a portion of which has been recognised in 2014/15.

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

in £m 2014-15 prices unless stated

- (8) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. Whilst some of these additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification, Paddington roof, Basingstoke campus and other electrification programmes), others, (notably FTN) have emerged in 2014/15. As not all of these CP4 rollover projects have finished not all of the expected FPM has been recognised in 2014/15. As these projects complete in the next couple of years additional negative FPM will crystallise later in the control period.

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

in £m 2014-15 prices unless stated

			2014-15			
	Variance to adjusted PR13	Variance due to ECAM adjustment	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(58)	-	8	-	(66)	(11)
GW electrification (Paddington to Cardiff)	(48)	120	88	-	(16)	(4)
East West Rail (committed scheme)	(109)	(7)	(112)	-	(4)	(1)
IEP Programme	35	(34)	5	-	(4)	(1)
Reading station area redevelopment	8	(57)	(49)	-	-	-
Stafford area improvement scheme	(2)	8	6	-	-	-
West coast power supply upgrade	10	2	32	-	(20)	(5)
Edinburgh Glasgow Improvements Programme (EGIP)						
Electrification of Springburn to Cumbernauld	7	-	7	-	-	-
MML electrification	16	38	54	-	-	-
Walsall to Rugeley electrification	(1)	10	9	-	-	-
Redhill additional platform	1	1	2	-	-	-
Dr Days to Filton Abbey Wood capacity improvements	3	-	3	-	-	-
Rolling programme of electrification (Scotland)	(17)	3	(14)	-	-	-
Kent traction power supply upgrade	3	(5)	(2)	-	-	-
East Kent resignalling phase 2	6	8	14	-	-	-
Chiltern Main Line Train Lengthening	(5)	-	(5)	-	-	-
New Cross Grid	13	(1)	12	-	-	-
Birmingham New St Gateway	(31)	-	(11)	-	(20)	(5)
DC Regeneration	-	-	-	-	-	-
Package 7,10 Car Park West Suburban Railway	(4)	-	-	-	(4)	(1)
Wessex Automatic Selective Door Opening	(1)	-	(1)	-	-	-
MML linespeed improvements	(3)	-	1	-	(4)	(1)
Manchester Victoria	(8)	-	-	-	(8)	(8)
Swindon Kemble Redoubling	(24)	-	(13)	-	(11)	(11)
Other Enhancements	273	-	269	-	4	1
Total	64	86	303	-	(153)	(47)

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

in £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) As part of the ECAM process, ORR reduced the agreed efficient price of each programme by 3 per cent to reflect a stretch target that the regulator imposed. Therefore, once a programme has been through the ECAM process it is likely that it would expect to have negative FPM as the funding has been reduced by 3 per cent but the programme has not had long enough to realise any savings to offset this 3 per cent. Against this regime it is unsurprising that Network Rail is reporting negative FPM on programmes that have been through ECAM.
- (2) Thameslink – programme costs are now expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works). Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspends.
- (3) GW electrification – approximately half of the negative FPM is due to the 3 per cent stretch imposed by the regulator on the ECAM price. The remaining amount is due to increases in the expected costs which have emerged as the programme plans become more detailed. The GW electrification programme is a hugely complex enhancement which is reliant on acquiring the necessary contractors with the competence and experience to deliver it safely and on time.
- (4) East West Rail – the majority of the underperformance has arisen from the 3 per cent stretch on the regulatory allowance imposed by ORR as part of the ECAM process.
- (5) IEP programme – nearly half of the negative FPM is due to the 3 per cent stretch imposed by the regulator on the ECAM price.
- (6) West coast power supply upgrade – the costs of this programme are expected to significantly exceed the funding available through the ECAM process. This increase is due to various factors including: programme delays following change of contractor due to safety concerns, reduced site access and an increase in the volume of safety critical staff required to deliver the programme, additional de-vegetation, trough clearance and remediation work and extra scope (higher number of auto transformer feeder switches and circuit breakers required compared to plan).

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

in £m 2014-15 prices unless stated

- (7) Birmingham New St Gateway – this programme had significant financial underperformance in CP4 (as measured through Financial Value Added) and continues to overspend in CP5 mainly due to programme delays which incur contractor costs as the most efficient way to complete the project for the money available is assessed. Also, further discoveries of asbestos on site have increased costs (this also impacted costs and Financial Value Added in CP4) as have problems with the integrity of atrium steelworks and other unforeseen structural defects that require remediation.
- (8) Package 7, 10 Car Park West Suburban Railway – this was a project rolled forward from CP4. Baseline funding for this project was agreed with the regulator after the start of the current control period. However, cost increases became apparent soon after the rollover funding was agreed.
- (9) Swindon Kemble Redoubling – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but recently identified cost increases have resulted in Network Rail spending more than expected. Discussions with ORR are ongoing to understand how this overspend should be treated.
- (10) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB.

Statement 6a: Analysis of income, Great Britain

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	4,164	4,137	27	3,855
Franchised track access income				
Fixed charges	440	425	15	1,493
Variable charges				
Variable usage charge	167	166	1	169
Traction electricity charges	275	240	35	272
Electrification asset usage charge	15	14	1	10
Capacity charge	408	403	5	187
Station usage charge	-	-	-	-
Schedule 4 net income	201	200	1	149
Schedule 8 net income	-	-	-	-
Total Variable charges income	1,066	1,023	43	787
Total franchised track access income	1,506	1,448	58	2,280
Total franchised track access and grant income	5,670	5,585	85	6,135
Other single till income				
Property income	283	290	(7)	285
Freight income	74	77	(3)	75
Open access income	27	26	1	26
Stations income	258	249	9	260
Facility and financing charges	53	81	(28)	32
Depots Income	65	63	2	63
Other income	16	14	2	14
Total other single till income	776	800	(24)	755
Total income	6,446	6,385	61	6,890

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

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport and Transport Scotland which are calculated using the November 2013 RPI in line with the Deed of Grant arrangements. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Fixed charges – fixed charge income was slightly higher than the determination. This is partly due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual fixed charge payments made by operators which are calculated using the November 2013 RPI in line with the track access contractual arrangements. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Fixed charges cannot be compared to the prior year figure in a meaningful way. The amount of fixed charge income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The decrease in fixed charges compared to 2013/14 is partly offset by higher grant income received from government. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5. The remaining difference is due to additional income Network Rail has earned from the provision of additional services to operators.

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

in £m 2014-15 prices unless stated

- (4) Variable usage charge - this matched the determination and was only very slightly lower than the previous year. Changes to the prior year are mostly due to changes in the rates that Network Rail charge under the regulatory framework. ORR implemented a change in these rates from the start of control period 5.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is higher than the determination due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. However this is balanced by an overspend on electricity costs (as shown in Statement 7a). Traction electricity charges are slightly higher than the previous year.
- (6) Electrification asset usage charge – income is in line with the determination but higher than the previous year due to changes in the regulatory regime this control period.
- (7) Capacity charge - this is higher than the determination because there has been an increase in trainservices in the year compared to the regulator's assumption. This is also reflected in the amounts Network Rail have earned under the volume incentive (refer to Statement 10). The details for this can be found in Statement 12. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore the yearly figure cannot be compared to 2013/14.
- (8) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is significantly higher than the 2013/14 value. This is due to changes in the Schedule 4 compensation rates in control period 5 compared to control period 4, which also results in changes in the access charge supplement payable by operators.
- (9) Property income – this is lower than the determination due to both lower rental income and lower property sales. Lower rental income is mostly due to differences between the assumptions made by the regulator about rental yields in 2014/15 compared to the current market position. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Property income is slightly lower than the previous year with extra rental income partly offset by lower property sales income.
- (10) Stations income – this is favourable to the regulator's assumption with the main contributor being Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations. This generates more income for Network Rail but as a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a).
- (11) Facility and financing charges – this is lower than the determination which is mainly due to the Crossrail finance charge income mechanism. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide funding to Network Rail to cover the borrowing costs that Network Rail would incur in order to deliver the required infrastructure for the Crossrail programme. However, this assumption did not come to pass. Instead, Crossrail provided the funding directly to Network Rail meaning that Network Rail did not have to borrow the funds and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is not a category of expenditure included in the assessment of Network Rail's financial performance.
- (12) Depots income - income is in slightly higher than the regulator's assumptions and the previous year. The main contributor to this is the additional facilities offered at Reading depot which has resulted in additional revenue being earned.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property income				
Property rental	249	285	(36)	242
Property sales	34	36	(2)	43
Adjustment for commercial opex	-	(31)	31	-
Total property income	283	290	(7)	285
Freight income				
Freight variable usage charge	57	58	(1)	56
Freight traction electricity charges	6	7	(1)	5
Freight electrification asset usage charge	-	1	(1)	-
Freight capacity charge	3	4	(1)	4
Freight only line charge	4	4	-	6
Freight specific charge	-	-	-	-
Freight other income	1	-	1	1
Freight coal spillage charge	3	3	-	3
Total freight income	74	77	(3)	75
Open access income				
Variable usage charge income	3	2	1	2
Open access capacity charge	1	1	-	1
Open access traction electricity charges	4	4	-	4
Fixed contractual contribution	19	19	-	19
Open access other income	-	-	-	-
Total open access income	27	26	1	26
Stations income				
Managed stations income				
Long term charge	35	33	2	22
Qualifying expenditure	55	45	10	45
Total managed stations income	90	78	12	67
Franchised stations income				
Long term charge	124	125	(1)	146
Stations lease income	44	46	(2)	47
Total franchised stations income	168	171	(3)	193
Total stations income	258	249	9	260
Facility and financing charges				
Facility charges	53	50	3	32
Crossrail finance charge	-	30	(30)	-
Welsh Valleys finance charge	-	1	(1)	-
Total facility and financing charges	53	81	(28)	32
Depots income	65	63	2	63
Other	16	14	2	14
Total other single till income	776	800	(24)	755

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

in £m 2014-15 prices unless stated

Notes:

- (1) Single till income represents revenue earned mainly from property but also from other areas such as freight and open access. Amounts earned under single till are used by the regulator to determine access charges and government grants. Therefore, the more that Network Rail can generate through single till income, ceteris paribus, the lower the costs to operators and government.
- (2) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions. This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures (refer to Statement 10). The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.
- (3) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is largely in line with the regulatory expectation. Income is slightly lower due to lower market yields on rental properties than the regulator assumed. Income is slightly higher than last year despite lower advertising income, mirroring the soft market in this area, which has been more than offset by Network Rail converting two franchised stations into managed stations in order to maximise commercial opportunities and improve the passenger experience. This has also resulted in additional operating costs for these stations (refer to Statement 7a).
- (2) Property sales – income is in line the regulator's determination but lower than last year. By their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.
- (3) Managed stations – Long term charge – income is in line with the regulatory target but higher than the previous year due to changes in the regulatory regime this control period.
- (4) Managed stations – Qualifying expenditure – income is higher than both the prior year and the PR13 assumption. The main contributor to this is the Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations. There is a decrease in franchised station income to reflect the new classification of the stations, although the impact of this is less. As a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a).
- (5) Franchised stations – long term charge – income is in line with the regulatory target but higher than the previous year due to changes in the regulatory regime this control period.
- (6) Franchised stations – Qualifying expenditure – income is in line with the regulatory target but higher than the previous year due to changes in the regulatory regime this control period.
- (7) Crossrail finance charge - the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide funding to Network Rail to cover the borrowing costs that Network Rail would incur in order to deliver the required infrastructure for the Crossrail programme. However, this assumption did not come to pass. Instead, Crossrail provided the funding directly to Network Rail meaning that Network Rail did not have to borrow the funds and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is not a category of expenditure included in the assessment of Network Rail's financial performance.
- (8) Depots – income is slightly higher than the regulator's assumptions and the previous year. The main contributor to this is the additional facilities offered at Reading depot which has resulted in additional revenue being earned.

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

in £m 2014-15 prices unless stated

- (9) In line with the regulatory settlement treatments, Other income refers to the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges.

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

in £m 2014-15 prices unless stated

	2014-15
Arriva Trains Wales	
Variable Usage Charges	3.1
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	3.9
Fixed Charges	18.1
Station Facility Charge	-
Station Long Term Charges	9.9
Station QX	0.4
Other Charges	1.6
Total income	37.0

	2014-15
C2C	
Variable Usage Charges	1.7
Traction Electricity Charges	6.3
Electrification Asset Usage Charges	0.4
Capacity Charges	2.3
Fixed Charges	4.7
Station Facility Charge	-
Station Long Term Charges	2.6
Station QX	-
Other Charges	1.2
Total income	19.2

	2014-15
Chiltern	
Variable Usage Charges	2.1
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	1.6
Fixed Charges	4.6
Station Facility Charge	-
Station Long Term Charges	3.7
Station QX	-
Other Charges	11.1
Total income	23.1

	2014-15
Cross Country	
Variable Usage Charges	10.3
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	23.5
Fixed Charges	21.9
Station Facility Charge	-
Station Long Term Charges	1.7
Station QX	3.2
Other Charges	-
Total income	60.6

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

in £m 2014-15 prices unless stated

	2014-15
East Coast Main Line Rail [4]	
Variable Usage Charges	19.0
Traction Electricity Charges	18.5
Electrification Asset Usage Charges	1.6
Capacity Charges	34.9
Fixed Charges	24.5
Station Facility Charge	-
Station Long Term Charges	7.5
Station QX	3.0
Other Charges	2.5
Total income	111.5

	2014-15
Virgin East Coast [4]	
Variable Usage Charges	1.8
Traction Electricity Charges	1.7
Electrification Asset Usage Charges	0.1
Capacity Charges	3.3
Fixed Charges	2.3
Station Facility Charge	-
Station Long Term Charges	0.7
Station QX	0.3
Other Charges	0.2
Total income	10.4

	2014-15
East Midlands	
Variable Usage Charges	7.4
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	17.1
Fixed Charges	14.9
Station Facility Charge	1.4
Station Long Term Charges	5.4
Station QX	0.3
Other Charges	6.5
Total income	53.0

	2014-15
First Capital Connect [5]	
Variable Usage Charges	3.1
Traction Electricity Charges	9.3
Electrification Asset Usage Charges	0.7
Capacity Charges	16.7
Fixed Charges	9.3
Station Facility Charge	0.4
Station Long Term Charges	4.6
Station QX	2.0
Other Charges	1.0
Total income	47.1

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

in £m 2014-15 prices unless stated

	2014-15
Govia Thameslink Railway [5]	
Variable Usage Charges	4.3
Traction Electricity Charges	16.9
Electrification Asset Usage Charges	0.9
Capacity Charges	23.6
Fixed Charges	11.2
Station Facility Charge	0.5
Station Long Term Charges	5.2
Station QX	1.9
Other Charges	2.9
Total income	67.4

	2014-15
First Great Western	
Variable Usage Charges	18.7
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	46.5
Fixed Charges	31.1
Station Facility Charge	1.9
Station Long Term Charges	16.3
Station QX	7.7
Other Charges	25.3
Total income	147.5

	2014-15
Greater Anglia	
Variable Usage Charges	10.5
Traction Electricity Charges	30.9
Electrification Asset Usage Charges	2.2
Capacity Charges	17.3
Fixed Charges	26.0
Station Facility Charge	1.1
Station Long Term Charges	3.6
Station QX	2.8
Other Charges	2.8
Total income	97.2

	2014-15
London Midland	
Variable Usage Charges	5.9
Traction Electricity Charges	13.7
Electrification Asset Usage Charges	0.9
Capacity Charges	33.6
Fixed Charges	18.1
Station Facility Charge	0.3
Station Long Term Charges	10.5
Station QX	4.7
Other Charges	3.3
Total income	91.0

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

in £m 2014-15 prices unless stated

	2014-15
London Overground	
Variable Usage Charges	0.8
Traction Electricity Charges	3.8
Electrification Asset Usage Charges	0.1
Capacity Charges	2.3
Fixed Charges	3.6
Station Facility Charge	-
Station Long Term Charges	3.5
Station QX	0.4
Other Charges	0.6
Total income	15.1

	2014-15
Merseyrail	
Variable Usage Charges	0.8
Traction Electricity Charges	5.4
Electrification Asset Usage Charges	0.1
Capacity Charges	0.5
Fixed Charges	3.2
Station Facility Charge	-
Station Long Term Charges	7.6
Station QX	-
Other Charges	0.6
Total income	18.2

	2014-15
Northern	
Variable Usage Charges	4.3
Traction Electricity Charges	4.4
Electrification Asset Usage Charges	0.2
Capacity Charges	8.1
Fixed Charges	24.7
Station Facility Charge	-
Station Long Term Charges	15.9
Station QX	3.0
Other Charges	5.1
Total income	65.7

	2014-15
Scotrail	
Variable Usage Charges	8.4
Traction Electricity Charges	11.8
Electrification Asset Usage Charges	0.9
Capacity Charges	9.8
Fixed Charges	92.4
Station Facility Charge	0.6
Station Long Term Charges	15.8
Station QX	3.6
Other Charges	6.3
Total income	149.6

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

in £m 2014-15 prices unless stated

	2014-15
South Eastern	
Variable Usage Charges	8.3
Traction Electricity Charges	32.0
Electrification Asset Usage Charges	1.0
Capacity Charges	15.8
Fixed Charges	23.0
Station Facility Charge	0.1
Station Long Term Charges	23.5
Station QX	5.6
Other Charges	7.3
Total income	116.6

	2014-15
South West Trains	
Variable Usage Charges	11.8
Traction Electricity Charges	36.4
Electrification Asset Usage Charges	1.1
Capacity Charges	25.2
Fixed Charges	24.3
Station Facility Charge	10.3
Station Long Term Charges	27.4
Station QX	4.2
Other Charges	7.5
Total income	148.2

	2014-15
Southern	
Variable Usage Charges	8.6
Traction Electricity Charges	27.8
Electrification Asset Usage Charges	1.0
Capacity Charges	40.9
Fixed Charges	17.9
Station Facility Charge	2.2
Station Long Term Charges	21.2
Station QX	3.1
Other Charges	1.6
Total income	124.3

	2014-15
Transpennine	
Variable Usage Charges	4.7
Traction Electricity Charges	2.1
Electrification Asset Usage Charges	0.2
Capacity Charges	10.7
Fixed Charges	10.8
Station Facility Charge	-
Station Long Term Charges	3.6
Station QX	1.5
Other Charges	0.1
Total income	33.7

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

in £m 2014-15 prices unless stated

	2014-15
Virgin West Coast	
Variable Usage Charges	31.3
Traction Electricity Charges	37.5
Electrification Asset Usage Charges	3.1
Capacity Charges	69.8
Fixed Charges	41.8
Station Facility Charge	8.5
Station Long Term Charges	11.0
Station QX	5.9
Other Charges	1.4
Total income	210.3

	2014-15
Consolidated Non-Franchised Train Operators	
Variable Usage Charges	2.5
Traction Electricity Charges	3.1
Electrification Asset Usage Charges	-
Capacity Charges	1.2
Fixed Charges	18.7
Station Facility Charge	-
Station Long Term Charges	1.5
Station QX	0.7
Other Charges	0.2
Total Turnover	27.9

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

	2014-15
Consolidated Freight Operating Companies	
Variable Usage Charges	57.1
Traction Electricity Charges	6.4
Electrification Asset Usage Charges	0.1
Capacity Charges	3.4
Fixed Charges	-
Station Facility Charge	-
Station Long Term Charges	-
Station QX	-
Other Charges	8.6
Total Turnover	75.6

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

in £m 2014-15 prices unless stated

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amount reported in the tables do not include any payments made to operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) Virgin East Coast replaced East Coast Main Line Rail during the year as the main operator on the East Coast Main Line. Income for both customers is included in this statement in separate tables.
- (5) Govia Thameslink replaced First Capital Connect during the year as the main operator on the Thameslink part of the network. Income for both customers is included in this statement in separate tables.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	250	238	(12)	244
Signalling shift managers	19	14	(5)	19
Local operations managers	22	16	(6)	19
Controllers	34	31	(3)	34
Electrical control room operators	12	10	(2)	14
Total signaller expenditure	337	309	(28)	330
Non-signaller expenditure				
Mobile operations managers	34	32	(2)	36
Managed stations	49	40	(9)	35
Performance	16	14	(2)	20
Customer relationship executives	5	7	2	4
Route enhancement managers	5	-	(5)	(1)
Weather	15	19	4	-
Other	33	15	(18)	10
Operations delivery	2	-	(2)	-
HQ - Operations services	1	-	(1)	-
HQ - Performance and planning	1	-	(1)	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	32	30	(2)	50
Other operating income	(41)	(21)	20	-
Total non-signaller expenditure	152	136	(16)	154
Total network operations expenditure	489	445	(44)	484
Support costs				
Core support costs				
Human resources	41	62	21	63
Information management	67	64	(3)	60
Government and corporate affairs	15	19	4	19
Group strategy	9	11	2	14
Finance	18	29	11	18
Business services	15	14	(1)	14
Accommodation	82	76	(6)	78
Utilities	43	43	-	46
Insurance	48	50	2	37
Legal and inquiry	7	6	(1)	5
Safety and sustainable development	24	11	(13)	15
Strategic sourcing	7	10	3	9
Business change	2	4	2	4
Other corporate functions	36	4	(32)	28
Core support costs	414	403	(11)	410
Other support costs				
Asset management services	35	43	8	46
Network rail telecoms	49	47	(2)	50
National delivery service	-	6	6	3
Infrastructure Projects	(19)	-	19	(57)
Commercial property	(4)	(3)	1	25
Group costs	(58)	(7)	51	153
Total other support costs	3	86	83	220
Total support costs	417	489	72	630
Traction electricity, industry costs and rates				
Traction electricity	292	259	(33)	292
Business rates	156	155	(1)	156
British transport police costs	83	74	(9)	79
RSSB costs	11	9	(2)	9
ORR licence fee and railway safety levy	17	18	1	21
Reporters fees	1	3	2	-
Other industry costs	1	2	1	-
Total traction electricity, industry costs and rates	561	520	(41)	557
Total network operations expenditure, support costs, traction electricity, industry costs and rates	1,467	1,454	(13)	1,671

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs of £21m in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are 10 per cent higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 with Network Operations costs of £453m (2014/15 prices). However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, there have been delays implementing efficiency strategies in the current year. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that ceteris paribus, costs would exceed the regulatory allowance for 2014/15. Costs are marginally higher than the previous year, mostly as a result of pay awards being higher than inflation. There are also some extra costs for managed stations where as responsibility for Reading and Bristol stations have transferred to Network Rail in 2014/15 resulting in extra costs (but also additional property income).
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (5) Human Resources - costs are noticeably lower than the determination and the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Further breakdown of HR costs can be found in Statement 7b.
- (6) Information Management – costs are higher than the determination and the previous year. This increase in cost compared to the prior year was expected in the regulator's determination in order to fund the requirement of the Traffic Management system. This is a cross-functional initiative aimed at improving network capability for predicting and managing disruptions in conjunction with operator organisations. This programme has been delayed but IM have brought forward some other initiatives from later in the control period such as upgrades to equipment to utilise the spare resources in the department.

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

in £m 2014-15 prices unless stated

- (7) Finance – costs were noticeably lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in 2013/14 year-on-year costs are consistent.
- (8) Accommodation – these property expenses were higher than the determination due to Network Rail utilising a more expensive property portfolio than the regulator assumed. The regulator assumed that costs would reduce by 6.5 per cent in the first year of the control period but costs have actually increased. This was mostly due to new office space being acquired in London.
- (9) Insurance - costs are in line with the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. In 2014/15 there were relatively few significant events which resulted in higher incentive regime costs which would have been covered through the insurance arrangements in place in CP4. The notable exception was the tunnel collapse causing in the closure of the line between Leamington Spa and Banbury, resulting in additional Schedule 4 compensation payments. Costs are higher than last year due to these increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive given the perceived risk associated with Network Rail by insurers.
- (10) Safety and sustainable development - Costs are much higher than the determination and the previous financial year. This is due to the company focussing even more on safety by investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the prior year and in the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are funded by savings made in these areas.
- (11) Other corporate functions – costs are in line with the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or did not expect the same level of organisational requirement. The savings compared to the PR13 in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b.
- (12) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination and in 2013/14 within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.
- (13) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities.
- (14) Infrastructure Projects - most of the costs incurred by projects are capitalised and therefore, there is usually minimal net costs within Infrastructure Projects. The amount in Infrastructure Projects for the current year relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (15) Commercial Property – costs are in line with the regulatory assumption but significantly lower than last year. As noted in last year's Regulatory financial statements the 2013/14 costs include some one-off costs relating to commercial claims. Excluding the impact of these costs the expense in 2013/14 is more in line with the 2014/15 costs.

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

in £m 2014-15 prices unless stated

- (16) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included £76.5m (2013/14 prices) in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out to £53.1m, thus resulting in a release of £23.4m which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (17) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher electricity charges and British Transport Police costs.
- (18) Traction electricity – costs are in line with the prior year but significantly higher than the determination. Network Rail has limited ability to influence traction electricity costs which are driven by the prevailing market rates of these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in the financial year are higher than the determination due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also higher than the Regulator assumed.
- (19) British transport police costs - costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were approximately 7 per cent higher than the regulator assumed when preparing their CP5 determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.

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

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	235	276
Operations and customer services non-signalling	0	0
MOMS	25	34
Control	40	46
Planning & Performance Staff Costs	30	32
Managed Stations Staff Costs	17	18
Operations Management Staff Costs	23	24
Other	114	59
Total operations & customer services costs	484	489
Total Network Operations	484	489
Support		
Human resources		
Functional support	29	15
Training (inc Westwood)	21	11
Graduates	2	0
Apprenticeships	7	9
Other	4	6
Total human resources	63	41
Information management		
Support	8	6
Projects	2	1
Licences	0	0
Business operations	50	60
Other	0	0
Total information management	60	67
Finance	18	18
Business Change	4	2
Strategic Sourcing	9	0
Contracts & Procurement	0	7
Planning & development	14	9
Safety & compliance	15	0
Other corporate services	53	16
Commercial property	103	78
Investment Projects	(57)	(19)
Route Services	13	19
Asset management & Engineering/Asset heads	142	0
National delivery service	3	0
Private party	0	0
Utilities	0	43
Network Rail Telecom	0	49
Digital Railway	0	17
Safety Technical & Engineering	0	42
Government & Corporate Affairs	0	15
Business Services	0	15
Route Asset Management	0	1
Legal and inquiry	0	7
Group/central		
Pensions	1	0
Insurance	37	48
Redundancy/reorganisation costs	69	17
Staff incentives/Bonus reduction	5	(25)
Accommodation & Support Recharges	(3)	(28)
Vehicle lease recoveries	0	0
ORR financial penalty	79	(23)
Other	2	1
Total group/central costs	190	(10)
Total support	630	417
Total network operations and support costs	1,114	906

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs of £21m in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these activities but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (4) Human Resources - costs are noticeably lower than the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses.
- (5) Information Management – increase in cost compared to the prior year was expected due to the requirements of the Traffic Management system. This is a cross-functional initiative aimed at improving network capability for predicting and managing disruptions in conjunction with operator organisations. This programme has been delayed but IM have brought forward some other initiatives from later in the control period such as upgrades to equipment to utilise the spare resources in the department. This is all shown in the Business operations category.
- (6) Contracts & procurement – activities previously categories as Contracts & procurement are now included within Strategic sourcing (National Supply Chain). Consequently, there are no Contracts & procurement costs reported for 2014/15.
- (7) Strategic sourcing (National Supply Chain) - activities previously categories as Contracts & procurement are now included within Strategic sourcing (National Supply Chain). Consequently, there are no Strategic sourcing (National Supply Chain) costs reported for 2013/14.
- (8) Safety & compliance – the costs are noticeably lower than last year. The activities previously undertaken by this department are now incorporated into the operations of the Safety Technical & Engineering team.
- (9) Other corporate services - in 2013/14 this included Government & Corporate Affairs, Business Services and Legal. These have been split out this year to provide more information of Network Rail's costs.
- (10) Property – costs are notably lower than the previous year. As noted in last year's Regulatory financial statements the 2013/14 costs were unusually high due to one-off amounts included for commercial claims. With no such items this year, the 2014/15 costs are more in line with expectation.
- (11) Infrastructure Projects - most of the costs incurred by projects are capitalised and therefore, there is usually minimal net costs within Infrastructure Projects. In 2013/14 inter-departmental recharges were included as a credit in Infrastructure Projects. This year, to be consistent with the presentation in the regulator's PR13, these recharges are included within Group costs (see below). The amount in Infrastructure Projects for the current year relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.

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

in £m 2014-15 prices unless stated

- (12) Route services – these costs have noticeably increased since 2013/14. As noted above, certain activities have transferred from Human Resources to the routes which has resulted in savings in Human Resources costs but higher Route services costs.
- (13) Asset management & engineering/ Asset heads – in last year's Regulatory financial statements this cost category included a number of activities. To improve visibility and clarity for costs in control period 5 these activities are now shown separately (Utilities, Telecoms, Digital Railway, certain elements of Safety, technical & engineering). On a like for like basis the activities in the category previously termed Asset management & engineering/ Asset heads have decreased marginally due to various efficiency initiatives.
- (14) Utilities - in the previous control period this was included within Asset management & engineering/ Asset heads but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are slightly lower than the previous year as a result of improved utility procurement strategies and favourable movements in market prices.
- (15) Telecoms - in the previous control period this was included within Asset management & engineering/ Asset heads but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are slightly higher than the previous year which includes the extra costs of FTN/ GSM-R (including FTNx) activity.
- (16) Digital railway - in the previous control period the activities of this function were included within Asset management & engineering/ Asset heads. To improve understanding in control period 5 this is now shown as a separate category to reflect the organisational structure of Network Rail. On a like-for-like basis costs in this area are broadly consistent with the previous year.
- (17) Safety, technical & engineering – in the previous control period the activities of this function were divided between Safety & compliance and Asset management & engineering/ Asset heads. To improve understanding in control period 5 this is now shown as a separate category to reflect the organisational structure of Network Rail. On a like-for-like basis costs in this area are broadly consistent with the previous year.
- (18) Government & corporate affairs - in the previous control period this was included within Other corporate services but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis costs are slightly lower than last year due certain activities transferring to Legal and inquiry, achievement of some minor efficiencies and the inclusion of some one-off publicity campaigns in 2013/14.
- (19) Business Services – in the previous control period this was included within Other corporate services but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are in line with the previous year.
- (20) Route Asset Management – costs last year were all recovered or off-charged to other activities. The increase in cost this year reflects the increase in the size and scope of route asset management. As part of the move towards devolved, independent routes to optimise decision making and generate operational improvements additional expertise and knowledge in this area is required for each of the routes.
- (21) Legal and inquiry – in the previous control period this was included within Other corporate services but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are higher than the previous year mostly due to activities transferring under the control of this department which were previously included within Finance and Government & Corporate Affairs.
- (22) Group – Insurance - costs are perceptibly higher than the previous year. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the cost of insurance premiums demanded by the market is now higher. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive given the perceived risk associated with Network Rail in insurance markets.

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

in £m 2014-15 prices unless stated

- (23) Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there was also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (24) Group – staff incentives - this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans.
- (25) Group – Accommodation & Support recharges – the credit in the current year relates to recharges made to the Infrastructure Projects department of Network Rail to reflect the costs incurred by this area (such as accommodation, use of IT equipment etc). These costs are credited in Support costs and included in the project costs in renewals and enhancements as these are specifically connected with the delivery of capital expenditure which is in line with the guidance in International Accounting Standards IAS 16 *Property, Plant & Equipment*. The amounts recharged in 2014/15 are in line with the amounts included in the regulator's PR13 settlement. Last year these costs have been reported under the Infrastructure Projects heading.
- (26) Group - in the 2013/14 Regulatory financial statements Network Rail included £76.5m (2013/14 prices) in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout to £53.1m, thus resulting in a release of £23.4m which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5.

Statement 7c: Insurance reconciliation, Great Britain

in £m 2014-15 prices unless stated

A) Reconciliation of costs

Risk	Market based insurance			Self insurance Claims recognised by the captive			Other	Total cost
	Underlying cost	Claims paid	Market premiums	Underlying cost	Captive premiums			
			A		B		C	D
Property	-	-	3	5	-	10	-	3
Business interruption	-	-	4	58	35	11	-	39
Terrorism	-	-	10	-	-	-	-	10
Employer's liability	-	-	1	2	2	5	-	3
Public & products liability	-	-	6	7	4	9	-	10
Motor	-	-	1	2	2	3	-	3
Construction all risks	10	3	1	3	2	1	-	3
Other cover	1	-	10	1	1	4	1	12
Investment return	-	-	-	-	-	-	1	1
Total	11	3	36	78	46	43	2	84

Total insurance recognised in:

Schedule 4 & 8	-	-	-	58	35	11	-	35
Operations	-	-	-	-	-	-	-	-
Support costs	11	3	36	20	11	-	2	49
Maintenance	-	-	-	-	-	-	-	-
Renewals	-	-	-	-	-	-	-	-
Enhancements	-	-	-	-	-	-	-	-
Total	11	3	36	78	46	11	2	84

B) Analysis of Network Rail Insurance Limited, Great Britain

Profit/(loss) derived from:	2014-15	Cumulative	2013-14
Operations	(25)	(25)	(16)
Investment revenues	1	1	1
Finance costs	-	-	-
Profit/(loss) before tax	(24)	(24)	(15)
Tax	-	-	-
Profit/(loss) attributable to shareholders	(24)	(24)	(15)

Statement 7c: Insurance reconciliation, Great Britain – continued

in £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) The outstanding value on the loan from Network Rail Infrastructure Limited to Network Rail Insurance limited is £nil.

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

in £m 2014-15 prices unless stated

Actual spend in year

	2014-15				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing keepers	253	(3)	-	250	238	-	-	238	(15)	3	-	(12)
Signalling shift managers	19	-	-	19	14	-	-	14	(5)	-	-	(5)
Local operations managers	23	(1)	-	22	16	-	-	16	(7)	1	-	(6)
Controllers	38	(4)	-	34	31	-	-	31	(7)	4	-	(3)
Electrical control room operators	13	(1)	-	12	10	-	-	10	(3)	1	-	(2)
Total signaller expenditure	346	(9)	-	337	309	-	-	309	(37)	9	-	(28)
Non-signaller expenditure												
Mobile operations managers	35	(1)	-	34	32	-	-	32	(3)	1	-	(2)
Managed stations	49	-	-	49	40	-	-	40	(9)	-	-	(9)
Performance	17	(1)	-	16	14	-	-	14	(3)	1	-	(2)
Customer relationship executives	8	(3)	-	5	7	-	-	7	(1)	3	-	2
Route enhancement managers	13	(8)	-	5	-	-	-	-	(13)	8	-	(5)
Weather	15	-	-	15	19	-	-	19	4	-	-	4
Other	49	(16)	-	33	15	-	-	15	(34)	16	-	(18)
Operations delivery	54	(52)	-	2	-	-	-	-	(54)	52	-	(2)
HQ - Operations services	1	-	-	1	-	-	-	-	(1)	-	-	(1)
HQ - Performance and planning	4	(3)	-	1	-	-	-	-	(4)	3	-	(1)
HQ - Stations and customer services	-	-	-	-	-	-	-	-	-	-	-	-
HQ - Other	36	(4)	-	32	30	-	-	30	(6)	4	-	(2)
Other operating income	-	-	(41)	(41)	(1)	-	(20)	(21)	(1)	-	21	20
Total non-signaller expenditure	281	(88)	(41)	152	156	-	(20)	136	(125)	88	21	(16)
Total network operations expenditure	627	(97)	(41)	489	465	-	(20)	445	(162)	97	21	(44)

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

in £m 2014-15 prices unless stated

	2014-15				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	49	(5)	(3)	41	64	-	(2)	62	15	5	1	21
Information management	94	(24)	(3)	67	68	-	(4)	64	(26)	24	(1)	(3)
Government and corporate affairs	16	(1)	-	15	19	-	-	19	3	1	-	4
Group strategy	18	(8)	(1)	9	11	-	-	11	(7)	8	1	2
Finance	18	-	-	18	29	-	-	29	11	-	-	11
Business services	16	(1)	-	15	15	-	(1)	14	(1)	1	(1)	(1)
Accommodation	83	(1)	-	82	76	-	-	76	(7)	1	-	(6)
Utilities	59	(2)	(14)	43	43	-	-	43	(16)	2	14	-
Insurance	48	-	-	48	50	-	-	50	2	-	-	2
Legal and inquiry	7	-	-	7	6	-	-	6	(1)	-	-	(1)
Safety and sustainable developmer	29	(5)	-	24	11	-	-	11	(18)	5	-	(13)
Strategic sourcing	7	-	-	7	23	-	(13)	10	16	-	(13)	3
Business change	2	-	-	2	4	-	-	4	2	-	-	2
Other corporate functions	261	(177)	(48)	36	4	-	-	4	(257)	177	48	(32)
Core support costs	707	(224)	(69)	414	423	-	(20)	403	(284)	224	49	(11)
Other support costs												
Asset management services	64	(27)	(2)	35	63	-	(20)	43	(1)	27	(18)	8
Network Rail telecoms	76	(19)	(8)	49	47	-	-	47	(29)	19	8	(2)
National delivery service	-	-	-	-	30	-	(24)	6	30	-	(24)	6
Infrastructure Projects	322	(338)	(3)	(19)	-	-	-	-	(322)	338	3	19
Commercial property	44	(17)	(31)	(4)	26	-	(29)	(3)	(18)	17	2	1
Group costs	15	-	(73)	(58)	(3)	-	(4)	(7)	(18)	-	69	51
Total other support costs	521	(401)	(117)	3	163	-	(77)	86	(358)	401	40	83
Total support costs	1,228	(625)	(186)	417	586	-	(97)	489	(642)	625	89	72

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs of £21m in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) The PR13 assumed that no costs within Network operations or Support would be capitalised. In the Regulatory financial statements for CP4, Network Rail disclosed costs recovered (a combined figure for capital and operational items) with the statement that the majority related to capital projects. Therefore, it was highly unlikely that there would be no capitalised costs in CP5. This is particularly true of Infrastructure Projects, the department responsible for delivering large parts of Network Rail's renewals and enhancements programmes. Therefore, as the PR13 comparatives for gross costs and own costs capitalised appear to be understated the below comments will focus on the net costs position by function.
- (3) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (4) Network Operations costs are 10 per cent higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 with Network Operations costs of £453m (2014/15 prices). However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that, ceteris paribus, costs would exceed the regulatory allowance for 2014/15. Costs are marginally higher than the previous year, mostly as a result of pay awards being higher than inflation. There are also some extra costs for managed stations where as responsibility for Reading and Bristol stations have transferred to Network Rail in 2014/15 resulting in extra costs (but also additional property income). Other operating income is higher than the regulator planned due to additional proceeds from disused rail disposal, recovery of costs for work undertaken on third party assets and litter clearance. Own costs capitalised were in line with the previous year.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (6) Human Resources - costs are noticeably lower than the determination and the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Further breakdown of HR costs can be found in Statement 7b.

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

in £m 2014-15 prices unless stated

- (7) Information Management – costs are higher than the determination and the previous year. This increase in cost compared to the prior year was expected in the regulator's determination in order to fund the requirement of the Traffic Management system. This is a cross-functional initiative aimed at improving network capability for predicting and managing disruptions in conjunction with operator organisations. This programme has been delayed but IM have brought forward some other initiatives from later in the control period such as upgrades to equipment to utilise the spare resources in the department. A certain amount of Information management staff costs relate to the construction and development of assets (largely Information technology assets). Therefore, an element of the gross costs of this department are capitalised.
- (8) Finance – costs were noticeably lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in 2013/14 year-on-year costs are consistent.
- (9) Accommodation – these property expenses were higher than the determination due to Network Rail utilising a more expensive property portfolio than the regulator assumed. The regulator assumed that costs would reduce by 6.5 per cent in the first year of the control period but costs have actually increased. This was mostly due to new office space being acquired in London.
- (10) Utilities – net costs are in line with the determination but Gross costs are higher which is offset by higher Other operating income. This appears to be because the Other operating income Network Rail receives from passing through utility costs to customers appears to be included in the Strategic sourcing department in the PR13 allowances.
- (11) Insurance - costs are in line with the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. In 2014/15 there were relatively few significant events which resulted in higher incentive regime costs which would have been covered through the insurance arrangements in place in CP4. The notable exception was the tunnel collapse causing in the closure of the line between Leamington Spa and Banbury, resulting in additional Schedule 4 compensation payments. Costs are higher than last year due to these increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive given the perceived risk associated with Network Rail by insurers.
- (12) Safety and sustainable development - Costs are much higher than the determination and the previous financial year. This is due to the company focussing even more on safety by investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the prior year and in the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are funded by savings made in these areas.
- (13) Strategic sourcing – net costs are broadly in line with the regulator's determination but Gross costs and Other operating income are both lower. The regulator assumed that income received from the pass through of utility costs would be managed by Strategic sourcing. This activity is instead recorded within Utilities by Network Rail.

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

in £m 2014-15 prices unless stated

- (14) Other corporate functions – costs are in line with the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or did not expect the same level of organisational requirement. The savings compared to the PR13 in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b. Higher Gross and Other operating income is largely due to services provided by Route asset management teams to third parties. The regulator assumed that some of this income (and corresponding costs) would be included within Asset management services but with Network Rail's move to a devolved, locally-focussed business model most of these activities have been transferred to the Other corporate functions heading.
- (15) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination and in 2013/14 within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Gross costs and Other operating income are both lower than the regulator assumed. As noted above, this activity (and the costs and corresponding income) is reported within Other corporate functions to reflect where the management responsibilities now lie.
- (16) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities. Gross costs and Other operating income are lower than the regulator assumed as most of the National Delivery Services activities are within Network maintenance. This does not change the net cost allocation between Network maintenance and Support which is still consistent with the regulator's assumptions in the PR13.
- (17) Infrastructure Projects - most of the costs incurred by projects are capitalised and therefore, there is usually minimal net costs within Infrastructure Projects. The amount in Infrastructure Projects for the current year relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (18) Commercial Property – costs are in line with the regulatory assumption but significantly lower than last year. As noted in last year's Regulatory financial statements the 2013/14 costs include some one-off costs relating to commercial claims. Excluding the impact of these costs the expense in 2013/14 is more in line with the 2014/15 costs.
- (19) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included £76.5m (2013/14 prices) in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout to £53.1m, thus resulting in a release of £24m which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments. Other operating income is higher than the regulatory assumption due to some additional income being recognised in Group for work carried out on external parties assets (and not on Network Rail's own network). There is an offsetting amount in Gross costs and so no impact upon Group's net costs.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	501	439	(62)	502
Signalling	190	161	(29)	163
Civils	117	149	32	167
Buildings	35	49	14	71
Electrical power and fixed plant	92	94	2	83
Telecoms	21	22	1	27
Other network operations	206	161	(45)	111
Asset management services	38	36	(2)	31
National Delivery Service	(5)	45	50	10
Property	12	5	(7)	6
Group	(21)	(18)	3	(20)
Total network maintenance	1,186	1,143	(43)	1,151

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

in £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs by £200m compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs of £21m in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are higher than the determination and the prior year. The main contributor to this was Network Rail's decision to reduce the level of incentive payouts to senior management and instead, re-invest this money into programmes to improve the safety and performance of the network. Some £37m was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network Maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Therefore, Network Rail were planning to have higher track maintenance costs than the PR13 even if National Delivery Services were not off-charged. Costs are in line with the previous year, which also included a full off-charge of National Delivery Services activities, despite an increase in network traffic (and so wear and tear on the network) compared to CP4.
- (4) Signalling - costs are higher than the determination and the previous year. One of the notable contributing factors has been the delay in implementing renewals programmes, necessitating greater maintenance costs to sustain the quality of the asset. Also, Network Rail has increased the level of maintenance to try to reduce the number of signalling failures and so improve train performance, reducing passenger delays and Schedule 8 costs.
- (5) Civils – costs were lower than the determination mainly as a result of a lower level of Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are lower than the prior year mostly due to a lower level of Reactive Maintenance required this year compared to 2013/14.

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

in £m 2014-15 prices unless stated

- (6) Buildings – there were no maintenance costs for Buildings reported in last year's Regulatory financial statements as the regulator chose to fund reactive maintenance works through Renewals last control period whereas this year, to be consistent with International Accounting Standards (IAS), these costs are accounted for as maintenance. The prior year has been restated to reflect these changes and provide a like-for-like comparison. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance between the actual and PR13 in the year is mostly due to differences in the reactive maintenance spend which has been treated as neutral when calculating Network Rail's financial performance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (7) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A total of £37m was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category and accounts for the spend being higher than the regulator's assumption in 2014/15. Costs are noticeably higher than 2013/14 which is a combination of the investment in the programmes noted above and a significant increase in the asset management organisation within the routes. As part of the move towards a devolved, more accountable railway the capabilities and responsibilities of the local asset management teams have increased significantly since 2013/14, as planned in Network Rail's plans for CP5, and reflected in the expenditure allowances set by the regulator.
- (8) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The small credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided.
- (9) Property – costs were higher than the regulatory assumption and the prior year mostly due to a tenant being declared bankrupt during the year. They are now unable to fulfil their obligations to restore a Network Rail owned site to the required condition under the terms of their lease. The site has suffered from contamination which Network Rail will now have to bear the remediation costs.

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

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

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

Notes:

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

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

in £m 2014-15 prices unless stated

	2014-15
Ashford	23
Bedford	18
Bletchley	27
Bristol	19
Brighton	24
Carlisle	23
Clapham	25
Cardiff	29
Croydon	23
Derby	21
Doncaster	18
Eastleigh	22
Edinburgh	21
Glasgow	15
Hitchin	22
Ipswich	26
Leeds	17
Liverpool	22
London Bridge	22
London Euston	27
Manchester	28
Motherwell	26
Newcastle	21
Orpington	19
Perth	14
Plymouth	15
Preston	16
Reading	16
Romford	32
Saltley	23
Sandwell & Dudley	19
Sheffield	15
Shrewsbury	15
Stafford	20
Swindon	15
Tottenham	31
Warrington	20
Woking	27
York	19
Centrally managed	
Structures examinations	69
Major items of maintenance plant	6
HQ managed activities	63
Other	213
Total network maintenance	1,186

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

in £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) No PR13 comparison has been provided by the ORR for this schedule

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

	2014-15	Permanent	Agency
Ashford	321	320	1
Bedford	300	300	-
Bletchley	365	364	1
Bristol	367	366	1
Brighton	359	358	1
Carlisle	373	373	-
Clapham	300	300	-
Cardiff	417	416	1
Croydon	295	295	-
Derby	461	460	1
Doncaster	292	292	-
Eastleigh	300	298	2
Edinburgh	327	327	-
Glasgow	250	250	-
Hitchin	343	342	1
Ipswich	405	405	-
Leeds	311	309	2
Liverpool	346	346	-
London Bridge	295	294	1
London Euston	322	322	-
Manchester	450	447	3
Motherwell	402	402	-
Newcastle	383	383	-
Orpington	260	260	-
Perth	216	216	-
Plymouth	315	314	1
Preston	273	271	2
Reading	336	331	5
Romford	430	426	4
Saltley	328	328	-
Sandwell & Dudley	307	304	3
Sheffield	318	317	1
Shrewsbury	259	259	-
Stafford	327	325	2
Swindon	258	256	2
Tottenham	429	428	1
Warrington	343	343	-
Woking	382	380	2
York	374	372	2
Centrally managed			
Route HQ	2,314	2,172	142
Other HQ	742	623	119
Total network maintenance	16,195	15,894	301

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

Notes:

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

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	887	747	(140)	1,031
Signalling	644	775	131	655
Civils	551	496	(55)	709
Buildings	183	168	(15)	286
Electrical power and fixed plant	125	248	123	232
Telecoms	81	97	16	202
Wheeled plant and machinery	71	164	93	46
Information technology	159	89	(70)	103
Property	24	23	(1)	53
Other renewals	224	(182)	(406)	259
Total renewals expenditure	2,949	2,625	(324)	3,576

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

in £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs by £200m compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – track costs are higher than the regulator assumed. This is a combination of accelerating volumes and higher than expected underlying costs. Network Rail planned to spend £989m in the year (refer to Statement 14) which included an assessment that higher underlying costs would mean the regulator's assumption would be overspent by over £200m on a like for like basis. This higher cost was due to higher CP4 exit rates for plain line unit costs, which were over 25 per cent higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual costs were higher than Network Rail planned for both plain line and switches & crossings partly due to contractor dispute issues (partly as a result of productivity problems arising from rationalising the supplier base) and lower than expected efficiencies from high output plant (arising from machinery failures, transition costs from bringing certain contractor staff in house to reduce long term costs and increase productivity). Track non-volume consists of Fencing and Slab track and is noticeably lower than the regulator assumed but, as Statement 14 shows, not as far behind Network Rail's own plan. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Expenditure was lower than the previous year with the largest contribution coming from conventional plain line renewals which was mainly a result of lower volumes delivered in the current year. In CP4 a great deal of track activity was delivered towards the end of the five-year period, with 25 per cent of the CP4 expenditure occurring in 2013/14.
- (3) Signalling – overall, expenditure was lower than the determination expected. However, this was largely due to deferral of activity, which was partly offset by higher than expected costs on a like for like basis. These extra costs included increases in the expected total costs of some large multi-year re-signalling projects such as Cardiff and Watford. Also, there were extra costs incurred from completing some control period 4 projects for which the regulator has not provided any funding, notably ROC (Regional Operating Centre) projects at Romford and Rugby. Completion of the ROC projects are fundamental to the successful implementation of the Network Operating Strategy which is supposed to generate long-term operational savings and performance improvements through rationalising the number of signalling boxes Network Rail uses. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is generally in line with the previous year.

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

in £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spent more on civils this year than the regulatory assumption. Civils underbridges expenditure was lower than the regulator assumed largely due to a re-profiling of volumes until later years of the control period. Earthworks expenditure is higher than the regulator's assumption due to increased amounts of emergency works. The extreme weather in 2013/14 impacted upon the railway infrastructure requiring remedial costs which have been recognised in the current year. This has also led to the category Other assets expenditure being higher than the regulator's assumption due to increased spend on coastal and estuary defences. Expenditure is noticeably lower than the previous year. In CP4 Government provided some additional funds for accelerated civils expenditure as part of a fiscal stimulus package for the economy. In addition, the extreme weather in 2013/14 necessitated a great deal of emergency works to be carried out (most visibly at Dawlish).
- (5) Buildings – expenditure in the year was slightly higher than the determination. The main reason for this is increased spending on Lineside and MDU buildings. However, expenditure was lower than Network Rail planned mostly due to lower expenditure on franchised stations. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4. In addition, costs in 2013/14 were distorted by the impact of additional works at Birmingham New Street that the regulator consented to be treated as efficient overspend within the Buildings portfolio. Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (6) Electrical power and fixed plant – expenditure in the year was noticeably lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant, DC Distribution & SCADA as Network Rail seeks to find optimal delivery strategies for these programmes. The SCADA activity planned for CP4 did not materialise and so ORR has provided a rollover of funding for this programme (the costs are included in the CP4 rollover category) but delays in design have meant that the CP4 element of the funding has not yet been exhausted, much less the PR13 allowances. There was also slippage in the Kent DC distribution project. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (7) Telecoms – expenditure in the year was slightly below the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. Over half of the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5). Expenditure is higher than the previous year due to additional High output plant purchases and increased spend on Intervention items.

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

in £m 2014-15 prices unless stated

- (9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.
- (10) Property – costs are in line with the expectation in the determination but are lower than the prior year. This is mostly due to expenditure on the corporate office estate which can fluctuate year on year depending upon the scheduled property workbank. Notable projects delivered in the final year of CP4 included investment in modernising the national training centre at Westwood and constructing the York workforce development centre. This year there were fewer major office projects resulting in lower costs.
- (11) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, approximately £50m has been spent on ORBIS this year but as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
 - b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
 - c. Small plant – this is less than half of the amount in the regulator’s determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category.
 - d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR’s view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
 - e. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. Expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company’s financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	298	252	(46)
High output renewal	208	114	(94)
Plain line refurbishment	58	29	(29)
S&C renewal	198	182	(16)
S&C refurbishment	30	38	8
Track non-volume	29	61	32
Off track	66	71	5
Total track	887	747	(140)
Signalling			
Full conventional resignalling	281	260	(21)
Modular resignalling	11	40	29
ERTMS resignalling	16	7	(9)
Partial conventional resignalling	94	169	75
Targeted component renewal	4	40	36
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	21	11	(10)
Operating strategy other capital expenditure	77	67	(10)
Level crossings	51	61	10
Minor works	82	81	(1)
Centrally managed costs	7	39	32
Total signalling	644	775	131
Civils			
Underbridges	176	226	50
Overbridges	55	35	(20)
Bridgeguard 3	8	-	(8)
Major structures	49	17	(32)
Tunnels	21	30	9
Other assets	59	44	(15)
Structures other	29	36	7
Earthworks	158	108	(50)
Other	(4)	-	4
Total civils	551	496	(55)
Buildings			
Managed stations	25	31	6
Franchised stations	114	107	(7)
Light maint depots	11	8	(3)
Depot plant	3	9	6
Lineside buildings	15	5	(10)
MDU buildings	13	6	(7)
NDS depots	2	2	-
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	183	168	(15)

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	1	12	11
Overhead Line	38	36	(2)
DC distribution	24	51	27
Conductor rail	7	14	7
SCADA	-	28	28
Energy efficiency	5	3	(2)
System capability / capacity	2	11	9
Other electrical power	13	16	3
Fixed plant and rail heating	35	77	42
Total electrical power and plant	125	248	123
Telecoms			
Operational communications	3	9	6
Network	5	14	9
SISS	6	28	22
Projects and other	10	17	7
Non-route capital expenditure	57	29	(28)
Total telecoms	81	97	16
Wheeled plant and machinery			
High output	22	83	61
Incident response	-	4	4
Infrastructure monitoring	3	4	1
Intervention	7	29	22
Materials delivery	22	-	(22)
On track plant	5	4	(1)
Seasonal	2	31	29
Locomotives	-	-	-
Fleet support plant	-	6	6
Road vehicles	10	3	(7)
S&C delivery	-	-	-
Total wheeled plant and machinery	71	164	93
Information Technology			
IM delivered renewals	141	79	(62)
Traffic management	18	10	(8)
Total Information technology	159	89	(70)
Property			
MDUs/offices	16	16	-
Commercial estate	8	7	(1)
Corporate services	-	-	-
Total property	24	23	(1)
Other renewals			
Asset information strategy	3	62	59
Intelligent infrastructure	13	15	2
Faster isolations	9	36	27
LOWS	-	2	2
Small plant	4	11	7
Research and development	-	-	-
Phasing overlay	-	(308)	(308)
Engineering innovation fund	-	-	-
CP4 rollover	195	-	(195)
Other	-	-	-
West Coast	-	-	-
Total other renewals	224	(182)	(406)
Total renewals	2,949	2,625	(324)

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

in £m 2014-15 prices unless stated

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5.
- (2) Track – track costs are higher than the regulator assumed. This is a combination of accelerating volumes and higher than expected underlying costs. Network Rail planned to spend £989m in the year (refer to Statement 14) which included an assessment that higher underlying costs would mean the regulator's assumption would be overspend by over £200m on a like for like basis. This higher underlying cost was due to higher CP4 exit rates for plain line unit costs, which were over 25 per cent higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual underlying costs were higher than Network Rail planned for both plain line and switches & crossings partly due to contractor dispute issues (partly as a result of productivity problems arising from rationalising the supplier base) and lower than expected efficiencies from high output plant (arising from machinery failures, transition costs from bringing certain contractor staff in house to reduce long term costs and increase productivity). Track non-volume consists of Fencing and Slab track and is noticeably lower than the regulator assumed but, as Statement 14 shows, not as far behind Network Rail's own plan. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years.
- (3) Signalling – overall, expenditure was lower than the determination expected. However, this was largely due to deferral of activity, which was partly offset by higher than expected costs on a like for like basis. These extra costs included increases in the expected total costs of some large multi-year re-signalling projects such as Cardiff and Watford. Also, there were extra costs incurred from completing some control period 4 projects for which the regulator has not provided any funding, notably ROC (Regional Operating Centre) projects at Romford and Rugby. Completion of the ROC projects are fundamental to the successful implementation of the Network Operating Strategy which is supposed to generate long-term operational savings and performance improvements through rationalising the number of signalling boxes Network Rail uses. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spent more on civils this year than the regulatory assumption. Civils underbridges – expenditure was lower than the regulator assumed largely due to a re-profiling of volumes until later years of the control period. Earthworks expenditure is higher than the regulator's assumption due to increased amounts of emergency works. The extreme weather in 2013/14 impacted upon the railway infrastructure requiring remedial costs which have been recognised in the current year. This has also led to the category Other assets expenditure being higher than the regulator's assumption due to increased spend on coastal and estuary defences.

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

in £m 2014-15 prices unless stated

- (5) Buildings – expenditure in the year was slightly higher than the determination. The main reason for this is increased spending on Lineside and MDU buildings. However, expenditure was lower than Network Rail planned mostly due to lower expenditure on franchised stations. Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (6) Electrical power and fixed plant – expenditure in the year was noticeably lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant, DC Distribution & SCADA as Network Rail seeks to find optimal delivery strategies for these programmes. The SCADA activity planned for CP4 did not materialise and so ORR has provided a rollover of funding for this programme (the costs are included in the CP4 rollover category) but delays in design have meant that the CP4 element of the funding has not yet been exhausted, much less the PR13 allowances. There was also slippage in the Kent DC distribution project. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant.
- (7) Telecoms – expenditure in the year was only slightly below the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non-volume. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing of high output machinery. There was also significantly lower expenditure on seasonal and intervention items that the regulator expected offset by higher expenditure on materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of the savings have been included as financial performance this year (refer to Statement 5).
- (9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver.
- (10) Other renewals
- Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, approximately £50m has been spent on ORBIS this year but as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
 - Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding.

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

in £m 2014-15 prices unless stated

- c. Small plant – this is less than half of the amount in the regulator's determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- e. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. Expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

Statement 10: Other information, Great Britain

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	199	213	14	170
Access charge supplement Income	(201)	(200)	1	(149)
Net (income)/cost	(2)	13	15	21
Schedule 8				
Performance element income	(24)	-	24	-
Performance element costs	133	4	(129)	217
Access charge supplement Income	-	-	-	-
Net (income)/cost	109	4	(105)	217

B) Opex memorandum account

	2014-15	CP4
Volume incentive	10	62
Proposed income/(expenditure) to be included in the CP6		
Business Rates	1	-
RSSB Costs	2	-
ORR licence fee and railway safety levy	(1)	-
Reporters fees	(2)	-
Other industry costs	(1)	-
Difference in CP4 opex memo	(9)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	109
Total logged up items	0	171

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

	Annual 2014-15	Annual Limit	Cumulative to 2014-15	Cumulative limit
Licence condition				
Turnover (per annum)	16	179		
Investment (any point in time)			194	268
Specific Consents				
Property development			17	50
Property			280	280

D) Net income / (costs) from alliances:

	2014-15	2013-14
Payment from South West Trains	1	1
Total alliance income	1	1
Payment to South West Trains	(2)	(4)
Total alliance costs	(2)	(4)
Net alliance income / (cost)	(1)	(3)

Statement 10: Other information, Great Britain – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are lower than the determination due to more efficient planning of possessions and also from deferrals of renewals activity to later in the control period. When Network Rail measures its financial performance it does not take into account savings or additional expenditure generated by renewal activity re-profiling (refer to Statement 5). In addition, costs in the current year benefitted from some favourable settlements of commercial claims. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the yearly cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2014/15. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2014/15 unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the year, with approximately 80 per cent of delay minutes being associated with infrastructure failures. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the yearly cost cannot be compared to the 2013/14 number in a meaningful way.
- (3) The opex memorandum currently shows a minor net income. This means that Network Rail's income in the PR18 will be adjusted to reflect this subject to the regulator's overall funding decisions for CP6. A large item in the opex memorandum is the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4. This meant that the regulator is compensating Network Rail for income shortfalls in CP4 during this control period. This is offset by the amounts Network Rail have earned in the current year under the volume incentive mechanism from increased traffic on the railway (refer to Statement 12).

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

in £m 2014-15 prices unless stated

Service	Staff	Agency	2014-15				Total cost
			Contractors & consultants	Materials	Plant	Overheads	
Operations	-	-	-	-	-	-	-
Maintenance	21	-	-	-	-	8	29
Renewals	-	-	-	-	-	-	-
Total	21	-	-	-	-	8	29

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

in £m 2014-15 prices unless stated

Notes:

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

Statement 12: Volume incentives, Great Britain

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year A	2013-14 baseline B	Baseline annual growth C	Incentive Rate D	Incentive Rate Unit
Passenger train miles (millions)	19	4	307	302	0.6%	1.46	pence per passenger train mile
Passenger farebox (millions)	33	6	8,865	8,413	2.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(2)	-	20	19	4.0%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	1	-	21,671	20,388	5.8%	2.50	pence per freight 1,000 gross tonne miles
Total volume incentive	51	10					

The cumulative volume incentive is determined by the following calculation: $[A_t - (B_{t-1} \times (1+C_t))] \times D \times 5$

Where:

At = Actual in year quantity

B = 2014-15 baseline

Ct = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Great Britain – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £10m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Great Britain

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	4,853	4,704	22,830	-	22,830	6,623	-	1,919	n/a
MNT005	Plain Line Stoneblowing (km)	km	7,554	1,500	11,331	-	11,331	3,485	-	1,985	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	172	24,447	4,215	-	4,215	19,316	-	(5,131)	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	237	12,129	2,875	-	2,875	10,458	-	(1,671)	n/a
MNT007	S&C Tamping (point end)	Point end	3,564	3,477	12,391	-	12,391	4,546	-	1,069	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	370	17,273	6,396	-	6,396	15,940	-	(1,333)	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	113	102,620	11,615	-	11,615	90,381	-	(12,239)	n/a
MNT017	Mechanical Reprofiting of Ballast (Mile)	Mile	1,120	4,352	4,875	-	4,875	2,903	-	(1,449)	n/a
MNT020	Manual Reprofiting of Ballast (rail yard)	Rail Yards	4	2,240,586	9,392	-	9,392	1,668,566	-	(572,020)	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	15	463,750	6,767	-	6,767	467,838	-	4,088	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	15	1,819,758	26,874	-	26,874	1,163,289	-	(656,469)	n/a
	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	11	521,952	5,761	-	5,761	258,893	-	(263,059)	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	16,114	650	10,474	-	10,474	682	-	32	n/a
MNT122	S&C Maintenance (point end)	Point end	40	428,111	17,028	-	17,028	434,251	-	6,140	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	12,666	632	8,005	-	8,005	782	-	150	n/a
MNT124	S&C Stoneblowing (point end)	Point end	8,934	227	2,028	-	2,028	891	-	664	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	4,568	-	-	-	10,057	-	5,489	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	1,310	-	-	-	3,002	-	1,692	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	14	583,489	8,214	-	8,214	984,458	-	400,969	n/a
MNT073	Drainage (Yard)	Yard	12	375,340	4,625	-	4,625	947,126	-	571,786	n/a
MNT075	LX Management - Off Track (Each)	Each	256	16,937	4,337	-	4,337	17,642	-	705	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	71	38,034	2,715	-	2,715	41,441	-	3,407	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	434	1,747	759	-	759	9,143	-	7,396	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	3	6,062,608	17,539	-	17,539	4,483,211	-	(1,579,397)	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	138	12,965	1,791	-	1,791	2,276	-	(10,689)	n/a
N/A	Non volume track and off-track maintenance	£m				298,189	298,189				n/a
Total track and off-track maintenance					202,837	298,189	501,026		438,850		(62,176)
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				189,627	189,627			-	n/a
Total signalling maintenance					-	189,627	189,627		160,673		(28,954)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Great Britain - continued

in £m 2014-15 prices unless stated

		Actual					Network Rail Business Plan		Difference to Business Plan		
		In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost	
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	117,400	-	-	-	119,277	-	1,877	n/a
MNT221	Detailed Examinations	No.	-	9,001	-	-	-	11,038	-	2,037	n/a
MNT222	Underwater Examination	No.	-	1,490	-	-	-	1,661	-	171	n/a
MNT223	Ancillary Structure examination	No. detailed	-	833	-	-	-	788	-	(45)	n/a
MNT224	Hidden critical element examinations	No.	-	831	-	-	-	1,285	-	454	n/a
MNT225	Load carrying assessment	No. spans	-	6,886	-	-	-	12,377	-	5,491	n/a
MNT226a	Visual Examinations (Civils)	No.	-	60,146	-	-	-	65,814	-	5,668	n/a
N/A	Non volume civils maintenance	£m				117,027	117,027			-	n/a
Total civils maintenance					-	117,027	117,027		149,165		32,138
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	10,014	-	-	-	14,133	-	4,119	n/a
MNT227	5 yearly examinations	Each	-	701	-	-	-	1,047	-	346	n/a
N/A	Non volume buildings maintenance	£m				35,235	35,235			-	n/a
Total buildings maintenance					-	35,235	35,235		49,137		13,902
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	47	67,986	3,188	-	3,188	47,641	-	(20,345)	n/a
MNT209	Maintain DC Traction Power Supplies	Each	115	39,006	4,482	-	4,482	33,773	-	(5,233)	n/a
MNT211	Maintain OHL Components	Various	52	349,803	18,024	-	18,024	191,345	-	(158,458)	n/a
MNT212	Maintain Points Heating	Each	42	132,640	5,585	-	5,585	132,792	-	152	n/a
MNT213	Maintain Signalling Power Supplies	Number	83	32,894	2,715	-	2,715	39,319	-	6,425	n/a
N/A	Non volume electrical power and fixed plant maintenance	£m				58,420	58,420			-	n/a
Total electrical power and fixed plant maintenance					33,994	58,420	92,414		94,194		1,780
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				20,925	20,925			-	n/a
Total telecoms maintenance					-	20,925	20,925		21,519		594

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Great Britain - continued

in £m 2014-15 prices unless stated

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				205,501	205,501			-	n/a
Total other network operations maintenance					-	205,501	205,501		161,204		(44,297)
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				38,131	38,131			-	n/a
Total asset management services maintenance					-	38,131	38,131		35,781		(2,350)
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(5,254)	(5,254)			-	n/a
Total national delivery service maintenance					-	(5,254)	(5,254)		45,387		50,641
Property maintenance											
N/A	Non volume property maintenance	£m				12,499	12,499			-	n/a
Total property maintenance					-	12,499	12,499		5,367		(7,132)
Group maintenance											
N/A	Non volume group maintenance	£m				(20,905)	(20,905)			-	n/a
Total group maintenance					-	(20,905)	(20,905)		(17,764)		3,141
Total							1,186,226		1,143,513		(42,713)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Great Britain – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	ckm	461	1,223	564	-	564	443	1,403	622	-	622	(18)	180	58	-	58
	Conventional		573	520	298	-	298	573	607	348	-	348	0	87	50	-	50
	High Output		552	377	208	-	208	538	394	212	-	212	(14)	17	4	-	4
	Refurbishment		178	326	58	-	58	154	402	62	-	62	(24)	76	4	-	4
	S&C	point ends	315	723	228	-	228	228	1,095	250	-	250	(87)	372	22	-	22
	Track Drainage		1	23,902	26	-	26	1	40,663	45	-	45	0	16,761	19	-	19
	Renewal	lm	n/a	5,830	n/a	n/a	n/a	n/a	7,343	n/a	n/a	n/a	n/a	1,513	n/a	n/a	n/a
	Refurbishment	lm	n/a	15,605	n/a	n/a	n/a	n/a	32,509	n/a	n/a	n/a	n/a	16,904	n/a	n/a	n/a
	New Build	lm	n/a	2,467	n/a	n/a	n/a	n/a	811	n/a	n/a	n/a	n/a	(1,656)	n/a	n/a	n/a
	Fencing		30	797	24	-	24	32	809	26	-	26	2	12	2	-	2
	Slab Track		n/a	n/a	n/a	5	5	n/a	n/a	n/a	10	10	n/a	n/a	n/a	5	5
	Off track		n/a	n/a	n/a	40	40	n/a	n/a	n/a	36	36	n/a	n/a	n/a	(4)	(4)
Total					842	45	887			943	46	989			101	1	102
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	406	n/a	n/a	n/a	-	502	n/a	n/a	n/a	-	96
	Full conventional resignalling	SEU	540	520	281	-	281	244	1,061	259	-	259	(296)	541	(22)	-	(22)
	Modular resignalling	SEU	-	-	11	-	11	657	70	46	-	46	657	70	35	-	35
	ERTMS resignalling	SEU	-	-	16	-	16	-	-	2	-	2	-	-	(14)	-	(14)
	Partial conventional resignalling	SEU	556	169	94	-	94	259	609	158	-	158	(297)	440	64	-	64
	Targeted component renewal	SEU	571	7	4	-	4	255	145	37	-	37	(316)	138	33	-	33
	Level crossings	No.	1,457	35	51	-	51	1,242	62	77	-	77	(215)	27	26	-	26
	Signalling other		-	-	-	187	187	-	-	-	165	165	-	-	-	(22)	(22)
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	21	21	n/a	n/a	n/a	11	11	n/a	n/a	n/a	(10)	(10)
	Operating strategy other capex		n/a	n/a	n/a	77	77	n/a	n/a	n/a	68	68	n/a	n/a	n/a	(9)	(9)
	Minor works		n/a	n/a	n/a	82	82	n/a	n/a	n/a	51	51	n/a	n/a	n/a	(31)	(31)
	Centrally managed costs		n/a	n/a	n/a	7	7	n/a	n/a	n/a	35	35	n/a	n/a	n/a	28	28
Total					457	187	644			579	165	744			122	(22)	100

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	309	n/a	n/a	n/a	-	364	n/a	n/a	n/a	-	55
	Underbridges	m2	3	64,484	176	-	176	1	121,032	253	-	253	(1)	56,548	77	-	77
	Overbridges (incl BG3)	m2	6	10,711	63	-	63	3	25,317	65	-	65	(2)	14,606	2	-	2
	Tunnels	m2	1	17,433	21	-	21	1	28,719	30	-	30	0	11,286	9	-	9
	Major structures	m2	-	-	-	49	49	-	-	-	16	16	-	-	-	(33)	(33)
	Other structures assets		n/a	n/a	n/a	-	59	n/a	n/a	n/a	-	46	n/a	n/a	n/a	-	(13)
	Culverts	m2	4	4,765	18	-	18	7	2,099	15	-	15	3	(2,666)	(3)	-	(3)
	Footbridges	m2	7	968	7	-	7	5	2,007	10	-	10	(2)	1,039	3	-	3
	Coastal & Estuary Defences	m	3	7,329	24	-	24	2	2,070	5	-	5	(1)	(5,259)	(19)	-	(19)
	Retaining Walls	m2	3	3,425	10	-	10	4	4,046	16	-	16	1	621	6	-	6
	Earthworks	5-chain	61	2,304	141	-	141	29	3,178	95	-	95	(32)	874	(46)	-	(46)
	EW Drainage		1	12,942	17	-	17	-	38,552	35	-	35	(1)	25,610	18	-	18
	Renewal	lm	n/a	1,576	n/a	n/a	n/a	n/a	7,574	n/a	n/a	n/a	n/a	5,998	n/a	n/a	n/a
	Refurbishment	lm	n/a	1,227	n/a	n/a	n/a	n/a	1,610	n/a	n/a	n/a	n/a	383	n/a	n/a	n/a
	Maintenance	lm	n/a	3,032	n/a	n/a	n/a	n/a	24,066	n/a	n/a	n/a	n/a	21,034	n/a	n/a	n/a
	New Build	lm	n/a	7,107	n/a	n/a	n/a	n/a	5,302	n/a	n/a	n/a	n/a	(1,805)	n/a	n/a	n/a
	Structures other		n/a	n/a	n/a	29	29	n/a	n/a	n/a	19	19	n/a	n/a	n/a	(10)	(10)
	Other		n/a	n/a	n/a	(4)	(4)	n/a	n/a	n/a	(65)	(65)	n/a	n/a	n/a	(61)	(61)
	Total				477	74	551			524	(30)	494			47	(104)	(57)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	114	n/a	n/a	n/a	-	159	n/a	n/a	n/a	-	45
	Footbridges	m2	7	1,326	9	-	9	n/a	5,244	n/a	n/a	-	n/a	3,918	n/a	n/a	-
	Train Sheds	m2	1	8,213	5	-	5	n/a	24,253	n/a	n/a	-	n/a	16,040	n/a	n/a	-
	Canopies	m2	0	51,140	16	-	16	n/a	26,649	n/a	n/a	-	n/a	(24,491)	n/a	n/a	-
	Platforms	m2	1	54,481	28	-	28	n/a	79,937	n/a	n/a	-	n/a	25,456	n/a	n/a	-
	Buildings	m2	0	22,575	5	-	5	n/a	6,669	n/a	n/a	-	n/a	(15,906)	n/a	n/a	-
	Lifts & Escalators	No.	1,000	4	4	-	4	n/a	76	n/a	n/a	-	n/a	72	n/a	n/a	-
	Other		-	-	-	47	47	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	25	n/a	n/a	n/a	-	25	n/a	n/a	n/a	n/a	-
	Footbridges	m2	-	120	-	-	-	n/a	-	n/a	n/a	-	n/a	(120)	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	n/a	1,600	n/a	n/a	-	n/a	1,600	n/a	n/a	-
	Canopies	m2	4	265	1	-	1	n/a	5,930	n/a	n/a	-	n/a	5,665	n/a	n/a	-
	Platforms	m2	5	217	1	-	1	n/a	2,600	n/a	n/a	-	n/a	2,383	n/a	n/a	-
	Buildings	m2	2	6,712	11	-	11	n/a	5,874	n/a	n/a	-	n/a	(838)	n/a	n/a	-
	Lifts & Escalators	No.	1,000	3	3	-	3	n/a	11	n/a	n/a	-	n/a	8	n/a	n/a	-
	Other		-	-	-	9	9	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	41,126	11	-	11	-	98,021	-	-	22	n/a	56,895	n/a	n/a	11
	Buildings	m2	-	243	-	-	-	n/a	67,000	n/a	n/a	-	n/a	66,757	n/a	n/a	-
	Depot Shed	m2	-	40,883	-	-	-	n/a	31,021	n/a	n/a	-	n/a	(9,862)	n/a	n/a	-
	Lineside Buildings	m2	3	5,356	15	-	15	n/a	18,969	n/a	n/a	24	n/a	13,613	n/a	n/a	9
	MDU Buildings	m2	1	11,147	13	-	13	n/a	22,216	n/a	n/a	16	n/a	11,069	n/a	n/a	3
	Depot Plant		-	-	-	3	3	n/a	-	n/a	n/a	13	n/a	n/a	n/a	n/a	10
	NDS Depots		-	-	-	2	2	n/a	-	n/a	n/a	6	n/a	n/a	n/a	n/a	4
	Capitalised overheads		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	n/a	-	n/a	n/a	(49)	n/a	n/a	n/a	n/a	(49)
	Total				122	61	183			-	-	216			-	-	33

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		n/a	n/a	n/a	-	38	n/a	n/a	n/a	-	36	n/a	n/a	n/a	-	(2)
	Overhead Line Equipment (OLE) Re-wiring	wire runs	276	58	16	-	16	n/a	37	n/a	n/a	-	n/a	(21)	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	n/a	56	n/a	n/a	-	n/a	56	n/a	n/a	-
	Structure Renewals	No.	99	81	8	-	8	n/a	113	n/a	n/a	-	n/a	32	n/a	n/a	-
	Other		-	-	-	14	14	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	269	26	7	-	7	n/a	35	n/a	n/a	13	n/a	9	n/a	n/a	6
	AC distribution		-	-	-	-	1	n/a	-	n/a	n/a	13	n/a	n/a	n/a	n/a	12
	HV Switchgear Renewal	No.	-	21	-	-	-	n/a	16	n/a	n/a	-	n/a	(5)	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	n/a	21	n/a	n/a	-	n/a	21	n/a	n/a	-
	Other		-	-	-	1	1	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	24	n/a	-	n/a	n/a	49	n/a	n/a	n/a	n/a	25
	HV Switchgear Renewal	No.	-	2	-	1	1	n/a	2	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	667	6	4	-	4	n/a	40	n/a	n/a	-	n/a	34	n/a	n/a	-
	LV Switchgear Renewal	No.	62	65	4	-	4	n/a	78	n/a	n/a	-	n/a	13	n/a	n/a	-
	LV Cables	km	227	22	5	-	5	n/a	20	n/a	n/a	-	n/a	(2)	n/a	n/a	-
	Transformer Rectifiers	No.	125	8	1	-	1	n/a	2	n/a	n/a	-	n/a	(6)	n/a	n/a	-
	Other		-	-	-	9	9	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	32	n/a	-	n/a	n/a	77	n/a	n/a	n/a	n/a	45
	Signalling Power Cable Renewal	km	682	22	15	-	15	n/a	274	n/a	n/a	-	n/a	252	n/a	n/a	-
	Principle Supply Point Renewal	No.	182	22	4	-	4	n/a	20	n/a	n/a	-	n/a	(2)	n/a	n/a	-
	Other		-	-	-	13	13	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	42	71	3	-	3	n/a	334	n/a	n/a	-	n/a	263	n/a	n/a	(3)
	SCADA		-	-	-	-	-	n/a	-	n/a	n/a	28	n/a	n/a	n/a	n/a	28
	Energy efficiency		-	-	-	5	5	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(5)
	System capability / capacity		-	-	-	2	2	n/a	-	n/a	n/a	11	n/a	n/a	n/a	n/a	9
	Other electrical power		-	-	-	13	13	n/a	-	n/a	n/a	15	n/a	n/a	n/a	n/a	2
	Other		-	-	-	-	-	n/a	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					67	58	125			-	-	242			-	-	117

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

in £m 2014-15 prices unless stated

2014-15																	
Asset	Activity type	Unit	Actual				Network Rail Business Plan					Difference to Business Plan					
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		n/a	n/a	n/a	-	6	n/a	n/a	n/a	-	18	n/a	n/a	n/a	n/a	12
	Customer Information Systems	No.	9	112	1	-	1	n/a	188	n/a	n/a	-	n/a	76	n/a	n/a	-
	Public Address CCTV	No.	2	807	2	-	2	n/a	2,385	n/a	n/a	-	n/a	1,578	n/a	n/a	-
	Clocks	No.	10	205	2	-	2	n/a	273	n/a	n/a	-	n/a	68	n/a	n/a	-
	Operational Comms	No.	-	-	1	-	1	n/a	57	n/a	n/a	-	n/a	57	n/a	n/a	-
			n/a	n/a	n/a	-	3	n/a	n/a	n/a	n/a	9	n/a	n/a	n/a	n/a	6
	PABX Concentrator	Lines	-	-	-	-	-	n/a	1,929	n/a	n/a	-	n/a	1,929	n/a	n/a	-
	Processor Controlled Concentrator	No.															
		Lines	-	21	-	-	-	n/a	142	n/a	n/a	-	n/a	121	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	222	9	2	-	2	n/a	67	n/a	n/a	-	n/a	58	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	n/a	26	n/a	n/a	-	n/a	26	n/a	n/a	-
	Public Emergency Telephone System	No.	45	22	1	-	1	n/a	1	n/a	n/a	-	n/a	(21)	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	n/a	5	n/a	n/a	-	n/a	5	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	n/a	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	n/a	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Power Systems	No.	-	7	-	-	-	n/a	-	n/a	n/a	-	n/a	(7)	n/a	n/a	-
	Network		n/a	n/a	n/a	5	5	n/a	n/a	n/a	n/a	10	n/a	n/a	n/a	n/a	5
	Projects and other		n/a	n/a	n/a	10	10	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(10)
	Non route capex		n/a	n/a	n/a	57	57	n/a	n/a	n/a	n/a	61	n/a	n/a	n/a	n/a	4
	Total				9	72	81			-	-	98			-	-	17

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

in £m 2014-15 prices unless stated

		2014-15																
		Actual				Network Rail Business Plan				Difference to Business Plan								
						Other non-volume costs					Other non-volume costs							
Asset	Activity type	Unit	Unit cost	Volume	x volume	Total Cost	Unit cost	Volume	x volume	Total Cost	Unit cost	Volume	x volume	Total Cost	Unit cost	Volume	x volume	Total Cost
			£k/unit		£m		£m		£k/unit		£m		£m		£k/unit		£m	
Wheeled plant and machinery	High output		n/a	n/a	n/a	22	22	n/a	n/a	n/a	82	82	n/a	n/a	n/a	60	60	
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4	
	Infrastructure monitoring		n/a	n/a	n/a	3	3	n/a	n/a	n/a	4	4	n/a	n/a	n/a	1	1	
	Intervention		n/a	n/a	n/a	7	7	n/a	n/a	n/a	29	29	n/a	n/a	n/a	22	22	
	Materials Business		n/a	n/a	n/a	22	22	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(22)	(22)	
	On track plant		n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4	n/a	n/a	n/a	(1)	(1)	
	Seasonal		n/a	n/a	n/a	2	2	n/a	n/a	n/a	31	31	n/a	n/a	n/a	29	29	
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	7	7	n/a	n/a	n/a	7	7	
	Road vehicles		n/a	n/a	n/a	10	10	n/a	n/a	n/a	3	3	n/a	n/a	n/a	(7)	(7)	
	S&C Business		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total					-	71	71			-	164	164			-	93	93	
IT	IM delivered renewals		n/a	n/a	n/a	141	141	n/a	n/a	n/a	129	129	n/a	n/a	n/a	(12)	(12)	
	Traffic management		n/a	n/a	n/a	18	18	n/a	n/a	n/a	26	26	n/a	n/a	n/a	8	8	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Total					-	159	159			-	155	155			-	(4)	(4)	
Property	MDUs/offices		n/a	n/a	n/a	16	16	n/a	n/a	n/a	15	15	n/a	n/a	n/a	(1)	(1)	
	Commercial estate		n/a	n/a	n/a	8	8	n/a	n/a	n/a	6	6	n/a	n/a	n/a	(2)	(2)	
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Total					-	24	24			-	21	21			-	(3)	(3)	
Other renewals	Asset information strategy		n/a	n/a	n/a	3	3	n/a	n/a	n/a	60	60	n/a	n/a	n/a	57	57	
	Intelligent infrastructure		n/a	n/a	n/a	13	13	n/a	n/a	n/a	15	15	n/a	n/a	n/a	2	2	
	Faster isolations		n/a	n/a	n/a	9	9	n/a	n/a	n/a	37	37	n/a	n/a	n/a	28	28	
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Small plant		n/a	n/a	n/a	4	4	n/a	n/a	n/a	11	11	n/a	n/a	n/a	7	7	
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	CP4 Rollover		n/a	n/a	n/a	195	195	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(195)	(195)	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	30	30	n/a	n/a	n/a	30	30	
	Total					-	224	224			-	153	153			-	(71)	(71)
	Total Renewals							2,949					3,276					327
Regulatory Financial Statements																		
Control Period 5 - Year 1																		
113																		

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

in £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (3) Track - Conventional - The reduced outturn in Conventional works is predominantly driven by a continued reduction in activity across complete renewal and re-railing portfolio across a number of routes. A significant amount of volume was lost early on in the year due to re-prioritisation of workbanks and delays caused by the IP Contractual transition
- (4) Track - High Output - this year the High Output programme has delivered well but still lower than planned. The overrun of the renewal machine overhaul has severely impacted deliverability within East Midlands whilst, in London North West and Western, there have been further access and plant-based shortfalls. Also, within Sussex, the planned High Output programme have been pushed back to future years to facilitate longer-term planning horizons.
- (5) Track - Refurbishment - Refurbishment workbank was down from plan nationally. Large variances occurred in London North West and Scotland. The shortfall in Scotland is due to the de-prioritisation of a large proportion of the refurbishment workbank to safeguard the remainder of the workbank due to stretched resource and access availability. The corresponding reduction in activity within London North West is similarly due to reprioritisation and deliverability across the route Works Delivery teams.
- (6) Track - Switches & Crossings - Switches & Crossings shortfall is driven predominantly by shortfalls in London North East, Wales and Wessex. Works in London North East have been severely impacted by access restrictions on the East Coast Main Line and, secondly, due to an over ambitious volume target. The Cardiff Area resignalling scheme in Wales has suffered significant delays, which has had a knock-on effect on the associated Switches & Crossings works and Wessex have had to defer the large Switches & Crossings programme at Twickenham until future years due to access and logistics resourcing issues.
- (7) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (8) Signalling - Full Conventional Resignalling - the workbank is well below plan. In London North West, Wolverhampton Power Signalling Box Resignalling has now been delayed due to the project missing its' planned commissioning date following a delay in completing the necessary development and implementation works due to scheme complexity. This project is now scheduled for completion early in 2015/16 and therefore impact upon asset condition in the interim is limited. The remaining deviation on London North West relates to Crewe Steelworks, which is now scheduled to complete in the latter stages of 2015/16. In Wales, the final phase of the Cardiff Area Resignalling (CASR) scheme was planned to commission (and so the volumes recognised) in the current year. However, due to complexities associated with its delivery and the knock-on effect of delays within the completion of earlier phases of the project this is now scheduled for later in the control period.

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

in £m 2014-15 prices unless stated

- (9) Signalling - Partial Conventional Resignalling - the workbank is below plan due to under delivery in Western as a result of Swindon Area Resignalling project suffering significant programme slippage, which resulted in the scheme missing its planned possession during 2014/15. As a result, Bristol Area Resignalling (BASR), for which the completion of Swindon was facilitative, has also had its first part-commissioning date pushed back to later in the control period.
- (10) Signalling - Targeted Component Renewal - volumes are currently behind plan and from a route perspective this is due to deviations on both Kent and London North East. Works at Hastings (Kent) has been deferred pending proposed enhancements works which may negate the need for any renewals activity as the most efficient whole asset life solution. Belmont and Norwood (London North East) have been postponed pending a further specification to deliver the scheme optimally.
- (11) Signalling - Level Crossings - workbank is below plan across most routes. Notable variances include slippage in Wales (Cardiff Area Signalling Renewal) and East Midlands (Syston to Peterborough).
- (12) Structures - Underbridges - workbank is below plan. Both London North East and East Midlands have been significantly inhibited due to the late award of framework contracts to third parties. Whilst this has caused a delay in the current year it is expected that this will be mostly caught up over the remainder of the control period. Securing the appropriate framework contracts allows for the optimal delivery of the structures workbank during CP5. Scotland's deviation is due to slippage at Glenury born out of similar circumstance. London North West has deferred Holmes Chapel Viaduct to next year as a result of access issues and integrating planning.
- (13) Structures - Overbridges - workbank is below plan across most routes. In Wales the volume downturn is due to the transfer of Ewenny Bridge and London North East it is the result of the aforementioned late award of framework contracts. The reduced outturn in Sussex is due to unplanned programme slippage on the Station Road, Lewes, scheme as a result of a development hiatus caused by the introduction of certain framework contracts.
- (14) Structures - Tunnels - The workbank is below plan. This is predominantly due to baseline discrepancies in Kent where the modelled baseline is not reflective of the granular workbank (Polehill tunnel). This scheme has now been rephased to later years as a result of a lost possession in the year. A further reduction in volume within London North West, is also forecasted following the deferral of works at Cowburn tunnel.
- (15) Structures - Footbridges - Footbridge volumes is less than Network Rail's published CP5 Business Plan predominantly due to Anglia, London North East and East Midlands. Works in Anglia have been re-programmed into later years of the control period due to design issues, East Midlands have been hampered by liability issues and London North East have slipped further work due to the aforementioned late awarding of framework contracts.
- (16) Structures - Coastal & Estuarial Defences - Volumes are greater than Network Rail's published CP5 Business Plan due to additional, emergency activity undertaken in Wales to restore asset condition following storm damage and works associated with Dawlish Walkway in Western.
- (17) Structures - Retaining Walls – Volumes are below plan due to a number of on-going schemes which were forecast for staged completion and, whilst ongoing, are yet to substantially complete and so no volumes have been recognised in line with the policy agreed with the regulator.
- (18) Earthworks - volumes are below plan in the three core areas of embankments, rock cuttings and soil cuttings. The key drivers for these variances are delays associated with the finalisation of framework contracts (as noted above), the impact of resource and deliverability restrictions and the prioritisation of emergency works following the emergence of additional work following the impact of extreme weather in 2013/14 upon the railway infrastructure.
- (19) Earthwork drainage - volumes of pipe works are substantively down from plan across all activity types and the majority of routes excluding London North West. This is reflective of the fact that work of this nature is usually delivered alongside wider earthworks interventions and therefore widespread slippage would be expected given the general trend of under delivery witnessed for Earthworks.
- (20) Buildings - Franchised Stations - within the workbank there has been significant movement across the majority of the portfolio this year with some positive outturn on Buildings (East Croydon & Bedford stations), and Canopies (Taunton and Bath stations). This has been offset by some downward deviations impacting Platforms (Vauxhall and Queens Town Road being deferred due to access restrictions and a change in purchasing strategy resulting in a change in volumes), Train Sheds (York Roof and Darlington have slipped following the reallocation of works) and Footbridges.

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

in £m 2014-15 prices unless stated

- (21) Buildings - Managed Stations - across the portfolio there is large amount of deviation in volume terms; negative variances exist most notably across Canopies and Platforms. Conversely, Managed Stations Buildings has favourable deviation from plan, which is due to the aforementioned works at Victoria station in Sussex and Leeds in London North East. At a national level this overall increase has been tempered by the deferral of works at Waterloo in order to align with enhancement works which are planned on and around the station later in the control period. Combining these work programmes reduces passenger disruption and results in cost efficiencies. Indeed, all activity across the Wessex Managed Stations portfolio, including canopy works, has been deferred for the same reason. The variance on Platforms is, again, due to the Victoria concourse terrazzo works which were incorrectly classified within the baseline and have now been reallocated, as above, to Buildings in order to properly reflect the nature of the works undertaken.
- (22) Electrification - OLE Rewiring - volume associated with OLE wire runs volume has increased from Network Rail's published CP4 Business Plan. From a route perspective, this is predominantly in Scotland and Anglia due to the continuation of the campaign change works in Scotland and strong delivery on the GE programme, in Anglia, where the delivery methodology has been enhanced to expedite progress.
- (23) Electrification - Mid-life Refurbishment - No volumes have been delivered in the year due to the fact that substantive renewals works programmes on the asset have been deferred pending certainty around the scope of the Midland Mainline electrification enhancement programme. This is also affecting the completion of interlinked Structures refurbishment programme on the East Midlands route.
- (24) Electrification - Conductor Rails - Volumes are down compared to Network Rail's published CP5 Business Plan as the result of re-profiling undertaken respectively, across two routes, to manage delivery within the confines of the wider route delivery strategy and in line with possession availability.
- (25) Electrification - DC Distribution - Early in CP5, Kent and Sussex routes both carried out a work bank review which determined that the first year of the control period was no longer deliverable due to insufficient development and the prioritisation of works originally planned for completion in CP4, which has constrained resource. Wessex also re-evaluated and adjusted their delivery plans. In some instances this has led to additional volume, primarily due to the recovery of works originally planned in control period 4, but other elements of the workbank have been re-profiled or reprioritised accordingly.
- (26) Electrification - Signalling Power Cables - Volumes are below Network Rail's published CP5 Business Plan due to variances in London North West who have re-profiled works to year three of the control period to align with slippage of the parent signalling enhancement scheme, and Anglia, where work has also been re-planned and packaged to drive latter year efficiency.
- (27) Electrification - Points Heaters - Volumes are below Network Rail's published CP5 Business Plan primarily due to variances in Wessex, London North West and London North East. Delivery in Wessex has been tempered by the aforementioned change in delivery strategy impacting upon Fixed Plant in addition to Electrification. The Manchester area points heating programme, in London North West, has been put on hold awaiting designs from Electrification and Plant Design Group whilst London North East have determined that a reduced level of intervention is required as a result of improved asset condition information and targeted life extension works.
- (28) Telecoms - Station Information and Surveillance Systems (SISS) - There are a number of new SISS schemes where delivery was planned for 2014/15 but has been delayed by Network Rail's review of the SISS strategy. This has led to significant volume movements out of this year and into later years of CP5. In addition, a number of public address systems (such as Paddington) were accelerated into control period 4 with the volumes recognised in 2013/14.
- (29) Telecoms - Operational Comms - PABX concentrators volumes are lower than Network Rail's published CP5 Business Plan as they are dependent on large renewal projects which can slip into future years. An example of this was the volumes in London Liverpool Street IECC which have slipped out of this year whilst decisions are made about Romford ROC (Regional Operating Centre) which is a project dependency. Driver Only Operation CCTV volumes are lower than budget due to protracted stakeholder agreement of the requirements specification which has led to slippage into 2015/16.

Statement 1: Summary regulatory financial performance, England & Wales

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	3,738	3,713	25	3,561
Fixed Income	348	334	14	1,165
Variable Income	995	956	39	734
Other Single Till Income	722	746	(24)	700
Opex memorandum account	-	-	-	-
Total Income	5,803	5,749	54	6,160
Operating expenditure				
Network operations	444	404	(40)	441
Support costs	373	440	67	571
Traction electricity, industry costs and rates	515	477	(38)	502
Network maintenance	1,080	1,032	(48)	1,036
Schedule 4	188	192	4	162
Schedule 8	106	4	(102)	215
Total operating expenditure	2,706	2,549	(157)	2,927
Capital expenditure				
Renewals	2,679	2,347	(332)	3,264
PR13 enhancement expenditure	2,461	2,490	29	1,580
Non PR13 enhancement expenditure	136	-	(136)	1,174
Total capital expenditure	5,276	4,837	(439)	6,018
Other expenditure				
Financing costs	1,275	1,493	218	1,333
Corporation tax (received)/paid	(4)	4	8	(5)
Rebates	-	-	-	112
Total other expenditure	1,271	1,497	226	1,440
Total expenditure	9,253	8,883	(370)	10,385

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

In £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was higher than the determination mostly due to higher electricity costs that Network Rail could pass onto operators. This is offset by higher Operating expenditure. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is lower than the determination due to some changes in the way certain capital programmes are funded. This is offset by a corresponding saving in interest. Excluding this, income is higher than the determination as set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – there is a minor amount reported this year. This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as delays in implementing efficiency initiatives. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher electricity costs which are largely recovered from operators through income. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination and the previous year which is mostly a result investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination from a combination of efficiencies and deferral of renewals activities. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Operating expenditure - Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets for the first year of the control period. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends expenditure and phasing of activity. These variances are set out in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure is in line with the determination. This is a combination of efficient overspends offset by re-profiling of programme delivery. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.

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

In £m 2014-15 prices unless stated

- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments and is lower than the determination largely as a result of lower inflation than the regulator assumed. This is set out in more detail in Statement 4.
- (17) Other expenditure – Corporation tax - the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.
- (18) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

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

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	41,627	41,627	-
Indexation to 2013-14 prices	1,101	1,101	-
Opening RAB for the year (2013-14 prices)	42,728	42,728	-
Indexation for the year	848	848	-
Opening RAB (2014-15 prices)	43,576	43,576	-
Adjustments for the actual capital expenditure outturn in			
CP4	1,239	-	1,239
Renewals	2,496	2,347	149
PR13 enhancements	2,432	2,438	(6)
Non-PR13 enhancements	105	-	105
Total enhancements	2,537	2,438	99
Amortisation	(2,132)	(2,132)	-
Adjustments for under-delivery of regulatory outputs	(5)	-	(5)
Closing RAB at 31 March 2015	47,711	46,229	1,482

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	43,576
Adjustments for the actual capital expenditure outturn in	
CP4	1,239
Renewals	2,496
PR13 enhancements	2,432
Non-PR13 enhancements	105
Total enhancements	2,537
Amortisation	(2,132)
Adjustments for under-delivery of regulatory outputs	(5)
Closing RAB	47,711

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

In £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment (RAB increase £84m) – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was a combination of re-profiling activity from future years, expenditure rolled over from CP4 (for which the regulator adjusted the renewals allowances) and some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was lower than the regulator assumed. This was due to a deferral of enhancement activity and efficient overspends compared to the funding available (the value of which cannot all be logged by to the RAB). The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM in England & Wales and Scotland and CaSL in England & Wales) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position. The missed outputs for the RAB this year relate to the estimated impact of missed enhancement milestones with contributions from a number of projects including: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development. This is an assessment based on information available but the regulator retains discretion over the final level of adjustment to be made.

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

in £m 2014-15 prices unless stated

Total as at 31/03/15

Renewals

Renewals per the PR13 determination	2,347
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	219
Capitalised financing on CP4 deferrals	5
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (renewals)	2,571
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(641)
Capitalised financing on acceleration / (deferrals) of expenditure	(14)
Adjustments for efficient overspend	700
Capitalised financing on efficient overspend	15
25% retention of efficient overspend	(175)
Capitalised financing on efficient overspend 25% retention	(4)
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing on efficient underspend 25% retention	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments for efficient overspend through spend to save framework	54
Capitalised financing on efficient overspend through spend to save framework	1
20% retention of efficient overspend through spend to save framework	(11)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other adjustments	-
Capitalised financing on other adjustments	-
Total Renewals (added to the RAB - see Statement 2a)	2,496
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	(3)
Adjustment for 25% retention of efficient overspend	186
Adjustment for 25% retention of efficient underspend	-
Other adjustments	-
Total actual renewals expenditure (see statement 9)	2,679

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

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	2,438
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	196
Capitalised financing on CP4 deferrals	4
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	(155)
Capitalised financing on adjustments to DfT funding	(4)
Other adjustments	25
Capitalised financing on other adjustments	1
Adjusted PR13 determination (enhancements)	2,505
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(185)
Capitalised financing on acceleration / (deferrals) of expenditure	(4)
Adjustments for efficient overspend	72
Capitalised financing on efficient overspend	2
25% retention of efficient overspend	(18)
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	66
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	(11)
Capitalised financing relating to projects with tailored protocols or fixed price	1
Adjustments for efficient overspend through spend to save framework	5
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	2,432
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	118
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(15)
Capitalised financing on non-PR13 enhancements expenditure	2
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	-
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	105
Total enhancements (added to the RAB - see statement 2a)	2,537
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	(2)
Adjustment for 25% retention of efficient overspend	45
Other adjustments (including discretionary investment)	18
Adjustment for 25% retention of efficient underspend	-
Non-PR13 enhancement expenditure	-
Third party funded schemes	468
Other adjustments	(1)
Total actual enhancement expenditure (see statement 3)	3,065

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

In £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (10) Enhancements – Adjustments to DfT funding – the DfT have decided to change the funding of parts of the GW Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, this reducing the amount of investment added to the RAB.
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.

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

In £m 2014-15 prices unless stated

- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).
- (15) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which is not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ overspend that Network Rail retains. As shown in Statement 5c, the effective rate of Thameslink overspends that Network Rail retains is 16.5 per cent based on the current level of anticipated total programme costs.
- (16) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will receive the other 20 per cent of the expense through additional income during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (17) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (18) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB. In this instance, the difference mostly relates to overspends against the investment framework allowance on the Swindon-Kemble programme and spend to save investments.
- (19) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to expenditure on Manchester Victoria station redevelopment and CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition

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

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Funds			
East coast connectivity	9	2	(7)
Stations - National Station Improvement Programme (NSIP)	10	29	19
Stations - Access for All (AfA)	29	62	33
Development	61	30	(31)
Level crossing safety	10	20	10
Passenger journey improvement	1	65	64
The strategic rail freight network	62	72	10
Total funds	182	280	98
Committed projects			
Thameslink	500	442	(58)
Crossrail	401	436	35
GW electrification (Paddington to Cardiff)	296	248	(48)
Adjustment for DfT funding - GW electrification	(73)	(73)	-
Bridgend to Swansea electrification	4	2	(2)
East West Rail (committed scheme)	143	34	(109)
Northern Hub	165	88	(77)
IEP Programme	70	105	35
North Trans Pennine Electrification East	16	65	49
North Trans Pennine Electrification West	3	17	14
NW Electrification	35	98	63
Reading station area redevelopment	108	116	8
Adjustment for DfT funding - Reading station area redevelopment	(82)	(82)	-
Stafford area improvement scheme	53	51	(2)
West coast power supply upgrade	56	66	10
Total committed projects	1,695	1,613	(82)
Named schemes			
The Electric Spine:			
MML electrification	52	68	16
MML Leicester Capacity (aka F2N Syston - Wigston)	-	-	-
Derby station area remodelling	3	-	(3)
Leamington to Coventry capacity	-	-	-
Oxford – Leamington – Coventry - Nuneaton electrification (Electric Spine)	-	-	-
Basingstoke to Southampton DC to AC conversion	-	-	-
MML Capacity (Bedford-Sharnbrook-Kettering-Corby) plus W12	-	-	-
Oxford – Bletchley – Bedford electrification (Electric Spine)	-	-	-
Basingstoke - Reading electrification (Electric Spine)	-	-	-
Electric spine (DfT SoFA amount)	22	8	(14)
Total Electric Spine projects	77	76	(1)
Thames Valley:			
Acton to Willesden electrification (WCML)	-	7	7
Thames Valley branches	-	2	2
Oxford Station area capacity and station enlargement	4	1	(3)
Total Thames Valley projects	4	10	6
Midlands			
Walsall to Rugeley electrification	16	15	(1)
Total Midlands Projects	16	15	(1)
Yorkshire			
Huddersfield station capacity improvement	-	-	-
Total Yorkshire Projects	-	-	-
Airports & Ports:			
Western access to London Heathrow Airport	2	6	4
Service Improvements in the Ely Area	-	1	1
Redhill additional platform	1	2	1
Total Airports & Ports	3	9	6

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

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
South East			
Waterloo	8	1	(7)
Total South East	8	1	(7)
West			
Dr Days to Filton Abbey Wood capacity improvements	3	6	3
Bristol Temple Meads passenger capacity (incl. Digby Wyatt Shed)	-	3	3
Total West	3	9	6
HLOS capacity metric schemes			
Leeds and Sheffield Capacity	-	2	2
South London HV traction power upgrade	1	4	3
West Anglia main line capacity increase	2	-	(2)
Bow Junction upgrade with Chelmsford & Wickford turnbacks	2	1	(1)
West of England DMU capability works	-	5	5
East Kent resignalling phase 2	25	31	6
Stevenage and Gordon Hill turnbacks	1	1	-
Reading, Ascot to London Waterloo train lengthening	1	1	-
Uckfield line train lengthening	1	1	-
MML long distance high speed services train lengthening	1	2	1
Route gauge Clearance for different EMUs	2	3	1
Bradford Mill Lane capacity	-	-	-
Leeds station capacity	-	3	3
Chiltern Main Line Train Lengthening	6	1	(5)
North West train lengthening	-	3	3
New Cross Grid	2	15	13
Anglia traction power supply upgrade	3	7	4
Sussex traction power supply upgrade	1	5	4
Wessex traction power supply upgrade	5	4	(1)
London Victoria station capacity improvements	1	1	-
Kent traction power supply upgrade	3	6	3
LNE routes traction power supply upgrade	-	17	17
Total HLOS capacity metric schemes	57	113	56
Third party funded			
Welsh Valley lines electrification	2	10	8
Total Third Party funded	2	10	8
CP4 Projects Rollovers			
Birmingham New St Gateway	99	68	(31)
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	7	5	(2)
Redditch Branch Enhancement	17	16	(1)
Kent power supply upgrade (CP4)	37	26	(11)
Barry - Cardiff Queen Street corridor	11	13	2
Capacity relief to the ECML	72	80	8
North Doncaster Chord	-	2	2
East Coast mainline overhead electrification	-	2	2
DC Regeneration	1	1	-
Package 4, Gravesend Train Lengthening	-	-	-
Package 7,10 Car Park West Suburban Railway	15	11	(4)
Wessex Automatic Selective Door Opening	1	-	(1)
Battersea Park Station Platform Lengthening	-	1	1
Gatwick Airport Remodelling and Passenger Capacity	4	5	1
East Croydon Passenger Capacity Scheme	1	1	-
MML linespeed improvements	21	18	(3)
Westerleigh Junction - Barnt Green linespeed increase	-	-	-
Station Security	-	2	2
Other CP4 Rollover	-	-	-
Total CP4 rollovers	286	251	(35)

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

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Other projects			
Seven day railway projects	17	7	(10)
ERTMS Cab fitment	9	8	(1)
R&D allowance	3	9	6
Depots and stabling	18	-	(18)
Income generating property schemes	81	44	(37)
Other income generating investment framework schemes	-	35	35
Total other projects	128	103	(25)
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	2,461	2,490	29
B) Investments not included in PR13			
Government sponsored schemes			
Swindon Kemble Redoubling	24	-	(24)
Northern Hub, Huyton & Roby	21	-	(21)
Western Distribution Network Operator (DNO) Clearance	9	-	(9)
Station Commercial Project Fund	19	-	(19)
Tram Train Project	5	-	(5)
Other government sponsored schemes	3	-	(3)
Total Government sponsored schemes	81	-	(81)
Network Rail spend to save schemes			
Acquisition of Freight Sights	26	-	(26)
Other spend to save schemes	-	-	-
Total Network Rail spend to save schemes	26	-	(26)
Total Schemes promoted by third parties	11	-	(11)
Discretionary Investment	18	-	(18)
Total non PR13 enhancement expenditure	136	-	(136)
Total Network Rail funded enhancements (see Statement 1)	2,597	2,490	(107)
Third Party PAYG	468	-	(468)
Total enhancements (see statement 2b)	3,065	2,490	(575)

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

In £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover and funding changes for Great Western Electrification and Reading programmes. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £2,597m (as shown in Statement 1). This comprises the total enhancement figure in the table above £3,065m less the PAYG schemes funded by third parties (£468m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
- (a) East Coast connectivity – this fund is used to improve capacity and reduces journey times on the East Coast main line. The regulator assumed a different profile of expenditure in the determination compared the profile planned by Network Rail resulting in additional expenditure this year but costs during the control period are not expected to exceed the funding available.
- (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
- (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when investment activity is expected to occur. Expenditure over the control period is expected to be in line with the regulator's allowances.

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

In £m 2014-15 prices unless stated

- (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. The regulator assumed a different profile of expenditure in the determination compared the profile planned by Network Rail resulting in additional expenditure this year but costs during the control period are not expected to exceed with the funding available.
 - (e) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.
 - (f) The Strategic rail freight network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year was lower than the regulator assumed as work was re-profiled to later years.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Spend in the year is higher than the determination which is mostly to underperformance as costs of activity in the London Bridge area (including the station itself) have been higher than planned. This is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (b) Crossrail - This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Although expenditure is less than the PR13 this is all due to re-phasing of expenditure in the control period and so does not count as financial outperformance. Actual expenditure in the year is only slightly behind Network Rail's own internal plans.
 - (c) GW electrification - This project will extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure on the current year was higher than the regulator expected. This is a combination of additional costs and acceleration of activity from future years. The expected costs of this project are higher than the funding settlement set through the ECAM process. As a result Network Rail has recognised financial underperformance (refer to Statement 5a) meaning that not all of the expenditure in the year is eligible for inclusion in the RAB (refer to Statement 2a).
 - (d) East West Rail - The objective of this project is to support economic growth along the line of route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is considerably higher than the PR13 allowance. Whilst there is some minor financial underperformance on this programme (refer to Statement 5a) the main reason for the increase in expenditure is due to acceleration of activity from future years. Network Rail's internal plan for 2014/15 expected to deliver more of the programme in 2014/15 than ORR's assumption.
 - (e) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Costs are significantly higher than the determination assumed as Network Rail is planning to deliver this programme in a different manner and to different timescales than the regulator's expectation.
 - (f) IEP Programme - the outputs of this includes infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Although expenditure is lower than the PR13 assumed this is mostly due to re-profiling of the programme delivery to future years. The anticipated costs of the programme exceed the funding available which has resulted in negative FPM being recognised (refer to Statement 5a) and not all of the capital expenditure this year is allowed to be logged up to the RAB (refer to Statement 2a).

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

In £m 2014-15 prices unless stated

- (g) North Trans Pennine Electrification - This programme facilitates the introduction of electric train operation on passenger and freight services in the north of England. This programme is some way behind the schedule assumed by the regulator meaning that costs in 2014/15 are lower than the PR13 allowance.
 - (h) NW Electrification - This programme facilitates the introduction of electric train operation on passenger and freight services. The programme has synergies with North Trans Pennine Electrification discussed above and as with that programme progress has been slower than planned as Network Rail seeks to identify the optimal project delivery strategy.
 - (i) Reading station area redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. Costs are lower than the determination but no FPM has been recognised yet as there are still some uncertainties about whether these savings can be sustained over the remainder of the programme.
 - (j) West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the NW Electrification programme referred to above. Although costs are lower than the regulator's expectation in 2014/15, the costs of the parts of the project delivered have been higher than planned. As a result financial underperformance has been recognised (refer to Statement 5a). Also, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Midland Mainline electrification - This project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. Expenditure in the year was lower than the regulator assumed. Delays in the year on programme design and plant purchases have resulted in lower than planned costs in the year.
 - (b) Electric Spine – this fund is to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. The regulator's CP5 profile assumed lower costs in earlier years with greater expenditure towards the end of the five-year period. Network Rail have delivered more in the opening year by accelerating parts of the programme from future years.
 - (c) Acton to Willesden electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with Network Rail's internal plan there was limited activity on this project in 2014/15. The regulator assumed that this project would start earlier in the control period than Network Rail planned.
 - (d) Waterloo - This project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. Although expenditure was higher than the PR13 allowance in 2014/15 it was in line with Network Rail's internal budget. Network Rail has planned to deliver this programme to a different timescale than the ORR assumed.
- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) West of England DMU capability works - This project will provide infrastructure capability enhancements to enable operation of cascaded DMUs from the Thames Valley to the West Country. In line with Network Rail's internal plan there was minimal activity on this programme in 2014/15.
 - (b) East Kent resignalling phase 2 - This project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Whilst expenditure in the year was lower than the regulator assumed it was in line with Network Rail's internal plan and funding set through the ECAM process.

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

In £m 2014-15 prices unless stated

- (c) Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. Costs in the year were higher than the PR13 allowance mostly as a result of Network Rail accelerating work from future years but also as a result of higher costs than the ECAM funding. This is reported as financial underperformance (refer to Statement 5a) and not all of the expenditure is eligible for logging up to the RAB (refer to Statement 2a). The PR13 column does not reflect the updated funding arrangements set through the ECAM process so does not provide a useful benchmark.
- (d) New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Expenditure was noticeably lower than the PR13 assumed. Most of this variance was incorporated in Network Rail's internal plan which assumed a different phasing for the delivery of this programme than the regulator's determination.
- (e) London North East routes traction power supply upgrade - This project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. In line with Network Rail's internal plan activity on this programme was limited in 2014/15.
- (9) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the year was lower than the regulator assumed due to re-profiling of the project into later years. This was largely due to delays finalising the funding for the programme leading to delays in milestones.
- (10) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the PR13 column values in this statement. Notable variance between the funding available and actual spend in 2014/15 in these areas are noted below:
 - (a) Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notable Birmingham City Council. The costs of this programme across CP4 and CP5 have been higher than expected. This has resulted in the recognition of financial underperformance in both control periods.
 - (b) Kent Power Supply Upgrade – although expenditure was higher than the PR13 it was in line with Network Rail's internal target. Network Rail's total projected costs for this programme are in line with the regulatory allowance but it is assuming a different delivery profile.
 - (c) Capacity relief to the ECML (East Coast Main Line) – when the regulator provided additional allowances for the completion of this programme they assumed that the project would be completed in the current year. However, Network Rail has deferred elements of the project until next year. Overall, the total programme costs are expected to be in line with the funding available.
- (11) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
 - (a) Seven day railway projects – Network Rail has invested this fund quicker than the regulator assumed in the first year of the control period. The seven day railway programme was also available in control period 5 meaning the company has a mature governance process for identifying appropriate projects. This has allowed Network Rail to accelerate funding from future years in order to gain maximum benefit of this fund by investing at the start of the control period.
 - (b) R&D allowance – the regulator assumed that Network Rail would invest this fund evenly over the control period. However, Network Rail have spent more slowly in the first year of the control period as it seeks to identify those schemes which will deliver maximum benefit to the industry. The R&D allowance is a new principle for control period 5 so Network Rail is considering the optimal use of this funding allowance.

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

In £m 2014-15 prices unless stated

- (c) Depots and stabling – the regulator assumed that activity in this category will be substantially weighted towards future years of the control period whereas Network Rail is planning a more even phasing of expenditure.
 - (d) Income generating property schemes – Network Rail invested more in its commercial property estate than the regulator assumed. This was largely due to additional one-off items such as the purchase of a site in Haywards Heath.
 - (e) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (12) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
- (a) Government sponsored – as expected, this is significantly lower than last year. Most of the large programmes funded through this mechanism last year (such as Crossrail, Electrification, and Reading) have specific funding in the PR13 regulatory settlement and so the activity is included in the PR13 section of this statement. Intuitively, towards the end of a control period it would be likely that this level of expenditure would be relatively high as most programmes that emerge during the control period are likely to be funded through this mechanism.
 - (b) Schemes promoted by third parties – the major item in this category which accounts for nearly half of the expenditure is the Nottingham Hub programme. Under the machinations of the RAB in CP4 income generated by Network Rail from such schemes was deducted from the total amount of enhancements eligible for RAB addition. In the last year of CP4 the level of capex was lower than the turnover earned from schemes recorded against this heading throughout CP4. Therefore, a negative amount was included in last year's Regulatory financial statements.
 - (c) Network Rail Spend to save – acquisition of freight sites and paths. Most of the costs of these acquisitions were incurred in control period 4 and included in last year's Regulatory financial statements.
 - (d) Discretionary investment – this relates to expenditure on Manchester Victoria station redevelopment CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).
 - (e) PAYGO – as noted above, this includes elements of the Reading and Great Western Electrification Programme that the DfT has elected to fund in cash to reduce the amount being added to the RAB. Other significant programmes in this category in the current year include: Crossrail, Birmingham Gateway, and North-South Wales Journey Time Reduction. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

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

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	29,335	29,162	(173)
Income			
Grant income	(3,738)	(3,713)	25
Fixed charges	(348)	(334)	14
Variable charges	(995)	(956)	39
Other single till income	(722)	(746)	(24)
Total income	(5,803)	(5,749)	54
Expenditure			
Network operations	444	404	(40)
Support costs	373	440	67
Traction electricity, industry costs and rates	515	477	(38)
Network maintenance	1,080	1,032	(48)
Schedule 4	188	192	4
Schedule 8	106	4	(102)
Renewals	2,679	2,347	(332)
PR13 enhancement	2,461	2,438	(23)
Non-PR13 enhancement	136	-	(136)
Total expenditure	7,982	7,334	(648)
Financing			
Interest expenditure on nominal debt - FIM covered	452	479	27
Interest expenditure on index linked debt - FIM covered	218	224	6
Expenditure on the FIM	328	338	10
Interest expenditure on government borrowing	84	-	(84)
Interest on cash balances held by Network Rail	(10)	(9)	1
Total interest costs	1,072	1,032	(40)
Accretion on index linked debt - FIM covered	203	461	258
Total financing costs	1,275	1,493	218
Corporation tax	(4)	4	8
Other	384	511	127
Movement in net debt	3,834	3,593	(241)
Closing net debt	33,169	32,755	(414)

D) Financial indicators

	2014-15 Actual	PR13
Adjusted interest cover ratio (AICR)	0.90	1.03
FFO/interest	2.89	3.10
Net debt/RAB (gearing)	69.5%	70.9%
FFO/debt	9.3%	9.8%
RCF/debt	6.1%	6.6%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.2%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

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

In £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Debt attributable to England & Wales has increased by £3.8bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is £0.4bn higher than the regulator assumed. This is mostly due to higher investment in the railway network, higher performance regime costs and higher than assumed opening net debt partly offset by lower than expected interest costs and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.

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

In £m nominal unless otherwise stated

- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed. The rates for this type of debt have been generally in line with expectation but, as discussed above, Network Rail has reduced the proportion of index-linked debt held.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Corporation tax – the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.

(14) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(15) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 17 per cent of the value of gross debt at the year end is now directly from government.

(16) 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 April 2014. ****Retained cash flow (RCF) is defined as FFO minus net interest.

(17) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). The variance to the regulator's determination is mainly due to higher Schedule 8, Network operations and Network maintenance costs partly offset by savings in Support costs.

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

In £m nominal unless otherwise stated

- (18) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m. There has been a significant increase compared to previous year's ratio of 65.1 per cent. This was expected in the regulator's determination and, intuitively, the ratio would be expected to increase in a situation where both components of the calculation are increasing at the same absolute value. The main drivers of this include the regulator's decision to reduce Network Rail's opening CP5 RAB by £1.2bn for a perceived double count of tax (refer to above), reduced turnover in CP5 following ORR's decision to remove Network Rail's risk buffer, and sub-optimal capital expenditure (as noted above). Under the terms of its regulatory licence Network Rail must inform the regulator if it this ratio exceeds 75 per cent, setting out the steps it intends to take to reduce the amount below that limit, or if it expects to exceed 75 per cent in the forthcoming year (Licence Condition 3 – Financial Indebtedness).

in £m 2014-15 prices unless stated

[illegible]

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

in £m 2014-15 prices unless stated

Breakdown of variance not included in total financial performance - Variable	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustments for external traction electricity	(258)	(225)	(33)	(258)	(225)	- (33)
Total variance not included in total financial performance:	(258)	(225)	(33)	(258)	(225)	- (33)

Breakdown of variance not included in total financial performance - OSTI:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustment for Crossrail finance charge	-	30	(30)	-	30	- (30)
Adjustment for Welsh Valleys finance charge	-	1	(1)	-	1	- (1)
Total variance not included in total financial performance:	-	31	(31)	-	31	- (31)

Breakdown of variance not included in total financial performance - Support costs:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Release of CP4 long distance financial penalty provision	21	-	21	21	-	- 21
Total variance not included in total financial performance:	21	-	21	21	-	- 21

Breakdown of variance not included in total financial performance - Traction electricity:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustments for external traction electricity	258	225	(33)	258	225	- (33)
Total variance not included in total financial performance:	258	225	(33)	258	225	- (33)

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

In £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – most of the variance that has arisen is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this element of the variance. Fixed income also includes amounts payable under alliancing agreements. These have been entered into with our alliancing partner in Wessex to incentivise collaborative working to deliver mutual benefits. Any alliancing payments (or receipts) fall within the scope of FPM and so the impact of this is included in the FPM calculation.
- (3) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Other single till income – the regulator's determination assumed that Network Rail would receive income for Crossrail and Welsh Valley financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, this assumption did not come to pass. Instead, the external parties provided the funding directly to Network Rail resulting in lower income. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income is made to reflect the neutral impact of changes in the funding arrangements. The outperformance recognised in Other single till income is mainly the result of additional income arising from the reclassification of Bristol and Reading stations from leased to managed stations, partly offset by lower property income. Whilst this reclassification gives Network Rail an opportunity to generate more income it also results in higher operating costs that comes with running these extra stations

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

In £m 2014-15 prices unless stated

- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate. The determination assumed that Network Rail would exit the control period with a lower cost base. However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely.
- (7) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included £76.5m (2013/14 prices) in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout to £53.1m, thus resulting in a release of £23m which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (8) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police costs compared to the assumption in the determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (10) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.
- (11) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on Reactive maintenance in the opening year of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved. Underlying Network maintenance costs are notably higher than the determination. The main contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs.

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

In £m 2014-15 prices unless stated

- (12) Schedule 4 costs – costs were lower than the regulator assumed. However, not all of these savings have been classed as FPM. Schedule 4 possessions costs are incurred as a result of the level of renewals work undertaken. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to Schedule 4 so that a fair assessment of financial performance can be made.
- (13) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. The determination assumed PPM (industry measure of passenger train lateness) of 92.2 per cent in England & Wales in 2014/15 compared to actual PPM of 89.8 per cent. To bridge this gap in a single year was always going to be unlikely. As a result of this, schedule 8 compensation payments to operators have been higher than ORR assumed.
- (14) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (15) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (16) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. Negative FPM has been recognised in the year with regard to Swindon-Kemble redoubling programme and Manchester Victoria redevelopment where the expected final costs are higher than the amount the regulator has permitted to be added to the RAB.
- (17) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.
- (18) Corporation tax – whilst corporation tax variances are within the scope of FPM, it is uncertain that gains made in the current year will continue throughout the control period. Given this uncertainty, no FPM has been recognised at this time and so the saving compared to the PR13 baseline has been treated as neutral for the current year. This will be reviewed and updated in future years.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality targets for England & Wales were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Network Rail also faces a reduction for these missed outputs. In line with the regulator's guidelines, £3m has been included for every 0.1 per cent that England & Wales PPM target of 91.9 per cent was missed by.
- (3) CaSL (cancellations and significant lateness) – this train performance metric was missed in England & Wales. In line with the regulator's guidelines, £3m has been included for every 0.1 per cent that this regulatory output was missed by.
- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. There are a number of projects which contribute to the value this year including: 10 Car South West Suburban Railway - Guilford via Cobham, St Pancras to Sheffield Line Speed improvement and Phase 3 of the Barry to Cardiff Queen Street line development.

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

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(144)	172	(316)	(79)		(76)	(3)	-
Signalling	93	237	(144)	(36)		(26)	(10)	-
Civils	(39)	45	(84)	(21)		(14)	(7)	-
Buildings	(16)	8	(24)	(6)		-	(6)	-
Electrical power and fixed plant	118	154	(36)	(9)		(2)	(7)	-
Telecoms	7	15	(8)	(2)		-	(2)	-
Wheeled plant and machinery	84	84	-	-		-	-	-
IT	(63)	(63)	-	-		-	-	-
Property	6	6	-	-		-	-	-
Other renewals	(378)	(290)	(88)	(22)		(5)	(17)	-
Total	(332)	368	(700)	(175)		(123)	(52)	-

Where:

$$C = A - B$$

$$D = C \times 25\%$$

And:

$$D = E + F + G$$

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

In £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable financial underperformance in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Costs in the current year have also suffered from contractor productivity issues as Network Rail has reduced the number of delivery partners it uses as part of its framework contracts which has led to some problems managing the workbanks delivered by those contractors not being retained. Cost improvements were planned to arise from using new technologies and working practices, most notably high output plant. This allows for a full renewal to be completed with minimal possession time, reducing the disruption on passengers. However, this new technology has experienced some emerging issues which has hampered its effectiveness and not delivered the planned cost savings. Cost and budgetary pressures have also resulted in a reduction in volumes planned over the control period. However, there is not a proportionate link between reductions in volumes and reductions in cost and so falling volumes leads to an increase in average costs of each remaining job.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes. Additional scope and cost for Watford, Wolverhampton, Cardiff and Bristol. Signalling FPM has also been impacted by projects rolled over from CP4 for which the ORR has not provided any funding, including some of the ROC (Regional Operating Centre) projects. The delay in completing these project has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned.
- (4) Civils – cost overruns across a number of projects have contributed to the negative Civils FPM this year. Almost all routes have experienced cost increases as not all of the efficiencies targeted in the regulator's determination were achieved which, combined with one-off cost increases on certain projects, resulted in negative FPM. Civils financial underperformance also includes additional costs that have arisen as a result of storm damage and other weather events. Whilst some of this work has been funded by external insurers, some has remained within the organisation. The extra costs of repairing these structures and earthworks is not included in the determination allowances but are required to be completed in order to preserve the operational capability of the railway network.
- (5) Buildings – financial underperformance reported for almost all routes, with the largest contributions coming from Sussex (CP4 rollover projects for which no ORR funding was allowed and challenges towards the end of CP4 on East Croydon station) and London North West (extra scope from projects not finished in CP4 for which ORR did not provide any additional funding).
- (6) Electrical power and fixed plant – financial underperformance reported for almost all routes, with the largest contributions coming from Wessex and London North West (mostly due to extra scope with projects rolled over from CP4 for which ORR did not provide any additional funding).

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

In £m 2014-15 prices unless stated

- (7) Telecoms – in the face of increased challenges in supporting the expanding railway and technological advances a number of additional projects have been identified in the telecoms workbank for CP4. This has increased the total costs of the telecoms asset category over the control period creating negative FPM, a portion of which has been recognised in 2014/15.
- (8) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. Whilst some of these additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification, Paddington roof, Basingstoke campus and other electrification programmes), others, (notably FTN) have emerged in 2014/15. As not all of these CP4 rollover projects have finished not all of the expected FPM has been recognised in 2014/15. As these projects complete in the next couple of years additional negative FPM will crystallise later in the control period.

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

in £m 2014-15 prices unless stated

			2014-15			
	Variance to	Variance due	Deferral/	Other	Final	Financial out/
	adjusted PR13	to ECAM	(acceleration)	adjustments	Variance	(under)
		adjustment	of work			performance
Thameslink	(58)	-	8	-	(66)	(11)
GW electrification (Paddington to Cardiff)	(48)	120	88	-	(16)	(4)
East West Rail (committed scheme)	(109)	(7)	(112)	-	(4)	(1)
IEP Programme	35	(34)	5	-	(4)	(1)
Reading station area redevelopment	8	(57)	(49)	-	-	-
Stafford area improvement scheme	(2)	8	6	-	-	-
West coast power supply upgrade	10	2	32	-	(20)	(5)
MML electrification	16	38	54	-	-	-
Walsall to Rugeley electrification	(1)	10	9	-	-	-
Redhill additional platform	1	1	2	-	-	-
Dr Days to Filton Abbey Wood capacity improvements	3	-	3	-	-	-
Kent traction power supply upgrade	3	(5)	(2)	-	-	-
East Kent resignalling phase 2	6	8	14	-	-	-
Chiltern Main Line Train Lengthening	(5)	-	(5)	-	-	-
New Cross Grid	13	(1)	12	-	-	-
Birmingham New St Gateway	(31)	-	(11)	-	(20)	(5)
DC Regeneration	-	-	-	-	-	-
Package 7,10 Car Park West Suburban Railway	(4)	-	-	-	(4)	(1)
Wessex Automatic Selective Door Opening	(1)	-	(1)	-	-	-
MML linespeed improvements	(3)	-	1	-	(4)	(1)
Manchester Victoria	(8)	-	-	-	(8)	(8)
Swindon Kemble Redoubling	(24)	-	(13)	-	(11)	(11)
Other Enhancements	92	-	88	-	4	1
Total	(107)	83	129	-	(153)	(47)

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

In £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) As part of the ECAM process, ORR reduced the agreed efficient price of each programme by 3 per cent to reflect a stretch target that the regulator imposed. Therefore, once a programme has been through the ECAM process it is likely that it would expect to have negative FPM as the funding has been reduced by 3 per cent but the programme has not had long enough to realise any savings to offset this 3 per cent. Against this regime it is unsurprising that Network Rail is reporting negative FPM on programmes that have been through ECAM.
- (2) Thameslink – programme costs are now expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works). Under the terms of the protocol arrangements with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspends.
- (3) GW electrification – approximately half of the negative FPM is due to the 3 per cent stretch imposed by the regulator on the ECAM price. The remaining amount is due to increases in the expected costs which have emerged as the programme plans become more detailed. The GW electrification programme is a hugely complex enhancement which is reliant on acquiring the necessary contractors with the competence and experience to deliver it safely and on time.
- (4) East West Rail - the majority of the underperformance has arisen from the 3 per cent stretch on the regulatory allowance imposed by ORR as part of the ECAM process.
- (5) IEP programme – nearly half of the negative FPM is due to the 3 per cent stretch imposed by the regulator on the ECAM price.
- (6) West coast power supply upgrade – the costs of this programme are expected to significantly exceed the funding available through the ECAM process. This increase is due to various factors including: programme delays following change of contractor due to safety concerns, reduced site access and an increase in the volume of safety critical staff required to deliver the programme, additional de-vegetation, trough clearance and remediation works, extra scope (higher number of auto transformer feeder switches and circuit breakers required compared to plan).
- (7) Birmingham New St Gateway – this programme had significant financial underperformance in CP4 (as measured through Financial Value Added) and continues to overspend in CP5 mainly due to programme delays which incur contractor costs as the most efficient way to complete the project for the money available is assessed. Also, further discoveries of asbestos on site have increased costs (this also impacted costs and Financial Value Added in CP4) as has problems with the integrity of atrium steelworks and other unforeseen structural defects that require remediation.

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

In £m 2014-15 prices unless stated

- (8) Package 7, 10 Car Park West Suburban Railway – this was a project rolled forward from CP4. Baseline funding for this project was agreed with the regulator after the start of the current control period. However, cost increases became apparent soon after the rollover funding was agreed.
- (9) Swindon Kemble Redoubling – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but recently identified cost increases have resulted in Network Rail spending more than expected. Discussions with ORR are ongoing to understand how this overspend should be treated.
- (10) Manchester Victoria development – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but in CP5 additional costs increases have been identified, resulting in Network Rail spending more than can be added to the RAB.

Statement 6a: Analysis of income, England & Wales

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	3,738	3,713	25	3,561
Franchised track access income				
Fixed charges	348	334	14	1,165
Variable charges				
Variable usage charge	153	153	-	155
Traction electricity charges	258	225	33	250
Electrification asset usage charge	14	13	1	9
Capacity charge	389	385	4	181
Station usage charge	-	-	-	-
Schedule 4 net income	181	180	1	139
Schedule 8 net income	-	-	-	-
Total Variable charges income	995	956	39	734
Total franchised track access income	1,343	1,290	53	1,899
Total franchised track access and grant income	5,081	5,003	78	5,460
Other single till income				
Property income	267	273	(6)	272
Freight income	66	68	(2)	67
Open access income	27	26	1	26
Stations income	237	229	8	233
Facility and financing charges	52	80	(28)	31
Depots Income	57	56	1	57
Other income	16	14	2	14
Total other single till income	722	746	(24)	700
Total income	5,803	5,749	54	6,160

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

In £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Fixed charges – fixed charge income was slightly higher than the determination. This is partly due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual fixed charge payments made by operators which are calculated using the November 2013 RPI in line with the track access contractual arrangements. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Fixed charges cannot be compared to the prior year figure in a meaningful way. The amount of fixed charge income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The decrease in fixed charges compared to 2013/14 is partly offset by higher grant income received from government. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5. The remaining difference is due to additional income Network Rail has earned from the provision of additional services to operators.
- (4) Variable usage charge - this matched the determination and was only very slightly lower than the previous year. Changes to the prior year are mostly due to changes in the rates that Network Rail charge under the regulatory framework. ORR implemented a change in these rates from the start of control period 5.

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

In £m 2014-15 prices unless stated

- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is higher than the determination due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. However this is balanced by an overspend on electricity costs (as shown in Statement 7a). Traction electricity charges are slightly higher than the previous year.
- (6) Electrification asset usage charge – income is in line with the determination but higher than the previous year due to changes in the regulatory regime this control period.
- (7) Capacity charge - this is higher than the determination because there has been an increase in train services in the year compared to the regulator's assumption. This is also reflected in the amounts Network Rail have earned under the volume incentive (refer to Statement 10). The details for this can be found in Statement 12. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore the in year figure cannot be compared to 2013/14.
- (8) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is significantly higher than the 2013/14 value. This is due to changes in the Schedule 4 compensation rates in control period 5 compared to control period 4, which also results in changes in the access charge supplement payable by operators.
- (9) Property income – this is lower than the determination due to both lower rental income and lower property sales. Lower rental income is mostly due to differences between the assumptions made by the regulator about rental yields in 2014/15 compared to the current market position. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Property income is slightly lower than the previous year with extra rental income partly offset by lower property sales income.
- (10) Stations income – this is favourable to the regulator's assumption with the main contributor being Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations. This generates more income for Network Rail but as a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a).
- (11) Facility and financing charges – this is lower than the determination which is mainly due to the Crossrail finance charge income mechanism. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide funding to Network Rail to cover the borrowing costs that Network Rail would incur in order to deliver the required infrastructure for the Crossrail programme. However, this assumption did not come to pass. Instead, Crossrail provided the funding directly to Network Rail meaning that Network Rail did not have to borrow the funds and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is not a category of expenditure included in the assessment of Network Rail's financial performance.
- (12) Depots income - income is in slightly higher than the regulator's assumptions and the previous year. The main contributor to this is the additional facilities offered at Reading depot which has resulted in additional revenue being earned.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property income				
Property rental	235	268	(33)	229
Property sales	32	34	(2)	43
Adjustment for commercial opex	-	(29)	29	-
Total property income	267	273	(6)	272
Freight income				
Freight variable usage charge	51	52	(1)	50
Freight traction electricity charges	6	6	-	4
Freight electrification asset usage charge	-	1	(1)	-
Freight capacity charge	3	4	(1)	4
Freight only line charge	3	3	-	5
Freight specific charge	-	-	-	-
Freight other income	1	-	1	1
Freight coal spillage charge	2	2	-	3
Total freight income	66	68	(2)	67
Open access income				
Variable usage charge income	3	2	1	2
Open access capacity charge	1	1	-	1
Open access traction electricity charges	4	4	-	4
Fixed contractual contribution	19	19	-	19
Open access other income	-	-	-	-
Total open access income	27	26	1	26
Stations income				
Managed stations income				
Long term charge	32	31	1	19
Qualifying expenditure	51	40	11	40
Total managed stations income	83	71	12	59
Franchised stations income				
Long term charge	112	114	(2)	130
Stations lease income	42	44	(2)	44
Total franchised stations income	154	158	(4)	174
Total stations income	237	229	8	233
Facility and financing charges				
Facility charges	52	49	3	31
Crossrail finance charge	-	30	(30)	-
Welsh Valleys finance charge	-	1	(1)	-
Total facility and financing charges	52	80	(28)	31
Depots income	57	56	1	57
Other	16	14	2	14
Total other single till income	722	746	(24)	700

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

In £m 2014-15 prices unless stated

Notes:

- (1) Single till income represents revenue earned mainly from property but also from other areas such as freight and open access. Amounts earned under single till are used by the regulator to determine access charges and government grants. Therefore, the more that Network Rail can generate through single till income, ceteris paribus, the lower the costs to operators and government.
- (2) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions. This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures (refer to Statement 10). The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.
- (3) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is largely in line with the regulatory expectation. Income is slightly lower due to lower market yields on rental properties than the regulator assumed. Income is slightly higher than last year despite lower advertising income, mirroring the soft market in this area, which has been more than offset by Network Rail converting two franchised stations into managed stations in order to maximise commercial opportunities and improve the passenger experience. This has also resulted in additional operating costs for these stations (refer to Statement 7a).
- (2) Property sales – income is in line the regulator's determination but lower than last year. By their very nature property sales can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.
- (3) Managed stations – Long term charge – income is in line with the regulatory target but higher than the previous year due to changes in the regulatory regime this control period.
- (4) Managed stations – Qualifying expenditure – income is higher than both the prior year and the PR13 assumption. The main contributor to this is the Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations. There is a decrease in franchised station income to reflect the new classification of the stations, although the impact of this is less. As a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a).
- (5) Franchised stations – long term charge – income is in line with the regulatory target but higher than the previous year due to changes in the regulatory regime this control period.
- (6) Franchised stations – Qualifying expenditure – income is in line with the regulatory target but higher than the previous year due to changes in the regulatory regime this control period.
- (7) Crossrail finance charge - the determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide funding to Network Rail to cover the borrowing costs that Network Rail would incur in order to deliver the required infrastructure for the Crossrail programme. However, this assumption did not come to pass. Instead, Crossrail provided the funding directly to Network Rail meaning that Network Rail did not have to borrow the funds and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is not a category of expenditure included in the assessment of Network Rail's financial performance.
- (8) Depots – income is slightly higher than the regulator's assumptions and the previous year. The main contributor to this is the additional facilities offered at Reading depot which has resulted in additional revenue being earned.

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

In £m 2014-15 prices unless stated

- (9) In line with the regulatory settlement treatments, Other income refers to the net trading profit generated by Network Rail (High Speed) Limited (a wholly-owned subsidiary of Network Rail Infrastructure Limited) and amounts received from train operators for insurance recharges.

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

in £m 2014-15 prices unless stated

	2014-15
Arriva Trains Wales	
Variable Usage Charges	3.1
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	3.9
Fixed Charges	18.1
Station Facility Charge	-
Station Long Term Charges	9.9
Station QX	0.4
Other Charges	1.6
Total income	37.0

	2014-15
C2C	
Variable Usage Charges	1.7
Traction Electricity Charges	6.3
Electrification Asset Usage Charges	0.4
Capacity Charges	2.3
Fixed Charges	4.7
Station Facility Charge	-
Station Long Term Charges	2.6
Station QX	-
Other Charges	1.2
Total income	19.2

	2014-15
Chiltern	
Variable Usage Charges	2.1
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	1.6
Fixed Charges	4.6
Station Facility Charge	-
Station Long Term Charges	3.7
Station QX	-
Other Charges	11.1
Total income	23.1

	2014-15
Cross Country	
Variable Usage Charges	9.5
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	21.9
Fixed Charges	21.9
Station Facility Charge	-
Station Long Term Charges	1.5
Station QX	2.9
Other Charges	-
Total income	57.7

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

in £m 2014-15 prices unless stated

	2014-15
East Coast Main Line Rail [4]	
Variable Usage Charges	17.0
Traction Electricity Charges	18.5
Electrification Asset Usage Charges	1.5
Capacity Charges	31.7
Fixed Charges	24.5
Station Facility Charge	-
Station Long Term Charges	7.2
Station QX	2.5
Other Charges	1.2
Total income	104.1

	2014-15
Virgin East Coast [4]	
Variable Usage Charges	1.6
Traction Electricity Charges	1.7
Electrification Asset Usage Charges	0.1
Capacity Charges	3.0
Fixed Charges	2.3
Station Facility Charge	-
Station Long Term Charges	0.7
Station QX	0.2
Other Charges	0.1
Total income	9.7

	2014-15
East Midlands	
Variable Usage Charges	7.4
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	17.1
Fixed Charges	14.9
Station Facility Charge	1.4
Station Long Term Charges	5.4
Station QX	0.3
Other Charges	6.5
Total income	53.0

	2014-15
First Capital Connect [5]	
Variable Usage Charges	3.1
Traction Electricity Charges	9.3
Electrification Asset Usage Charges	0.7
Capacity Charges	16.7
Fixed Charges	9.3
Station Facility Charge	0.4
Station Long Term Charges	4.6
Station QX	2.0
Other Charges	1.0
Total income	47.1

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

in £m 2014-15 prices unless stated

	2014-15
Govia Thameslink Railway [5]	
Variable Usage Charges	4.3
Traction Electricity Charges	16.9
Electrification Asset Usage Charges	0.9
Capacity Charges	23.6
Fixed Charges	11.2
Station Facility Charge	0.5
Station Long Term Charges	5.2
Station QX	1.9
Other Charges	2.9
Total income	67.4

	2014-15
First Great Western	
Variable Usage Charges	18.7
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	46.5
Fixed Charges	31.1
Station Facility Charge	1.9
Station Long Term Charges	16.3
Station QX	7.7
Other Charges	25.3
Total income	147.5

	2014-15
Greater Anglia	
Variable Usage Charges	10.5
Traction Electricity Charges	30.9
Electrification Asset Usage Charges	2.2
Capacity Charges	17.3
Fixed Charges	26.0
Station Facility Charge	1.1
Station Long Term Charges	3.6
Station QX	2.8
Other Charges	2.8
Total income	97.2

	2014-15
London Midland	
Variable Usage Charges	5.9
Traction Electricity Charges	13.7
Electrification Asset Usage Charges	0.9
Capacity Charges	33.6
Fixed Charges	18.1
Station Facility Charge	0.3
Station Long Term Charges	10.5
Station QX	4.7
Other Charges	3.3
Total income	91.0

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

in £m 2014-15 prices unless stated

	2014-15
London Overground	
Variable Usage Charges	0.8
Traction Electricity Charges	3.8
Electrification Asset Usage Charges	0.1
Capacity Charges	2.3
Fixed Charges	3.6
Station Facility Charge	-
Station Long Term Charges	3.5
Station QX	0.4
Other Charges	0.6
Total income	15.1

	2014-15
Merseyrail	
Variable Usage Charges	0.8
Traction Electricity Charges	5.4
Electrification Asset Usage Charges	0.1
Capacity Charges	0.5
Fixed Charges	3.2
Station Facility Charge	-
Station Long Term Charges	7.6
Station QX	-
Other Charges	0.6
Total income	18.2

	2014-15
Northern	
Variable Usage Charges	4.3
Traction Electricity Charges	4.4
Electrification Asset Usage Charges	0.2
Capacity Charges	8.1
Fixed Charges	24.7
Station Facility Charge	-
Station Long Term Charges	15.9
Station QX	3.0
Other Charges	5.1
Total income	65.7

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

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

in £m 2014-15 prices unless stated

	2014-15
South Eastern	
Variable Usage Charges	8.3
Traction Electricity Charges	32.0
Electrification Asset Usage Charges	1.0
Capacity Charges	15.8
Fixed Charges	23.0
Station Facility Charge	0.1
Station Long Term Charges	23.5
Station QX	5.6
Other Charges	7.3
Total income	116.6

	2014-15
South West Trains	
Variable Usage Charges	11.8
Traction Electricity Charges	36.4
Electrification Asset Usage Charges	1.1
Capacity Charges	25.2
Fixed Charges	24.3
Station Facility Charge	10.3
Station Long Term Charges	27.4
Station QX	4.2
Other Charges	7.5
Total income	148.2

	2014-15
Southern	
Variable Usage Charges	8.6
Traction Electricity Charges	27.8
Electrification Asset Usage Charges	1.0
Capacity Charges	40.8
Fixed Charges	17.9
Station Facility Charge	2.2
Station Long Term Charges	21.2
Station QX	3.1
Other Charges	1.6
Total income	124.2

	2014-15
Transpennine	
Variable Usage Charges	4.3
Traction Electricity Charges	2.1
Electrification Asset Usage Charges	0.1
Capacity Charges	10.3
Fixed Charges	10.8
Station Facility Charge	-
Station Long Term Charges	3.6
Station QX	1.4
Other Charges	0.1
Total income	32.7

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

in £m 2014-15 prices unless stated

	2014-15
Virgin West Coast	
Variable Usage Charges	28.5
Traction Electricity Charges	37.5
Electrification Asset Usage Charges	2.8
Capacity Charges	65.6
Fixed Charges	41.8
Station Facility Charge	8.5
Station Long Term Charges	10.7
Station QX	5.5
Other Charges	1.4
Total income	202.3

	2014-15
Consolidated Non-Franchised Train Operators	
Variable Usage Charges	2.5
Traction Electricity Charges	3.1
Electrification Asset Usage Charges	-
Capacity Charges	1.2
Fixed Charges	18.7
Station Facility Charge	-
Station Long Term Charges	1.5
Station QX	0.7
Other Charges	0.2
Total Turnover	27.9

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

	2014-15
Consolidated Freight Operating Companies	
Variable Usage Charges	51.0
Traction Electricity Charges	6.4
Electrification Asset Usage Charges	0.1
Capacity Charges	3.1
Fixed Charges	-
Station Facility Charge	-
Station Long Term Charges	-
Station QX	-
Other Charges	6.9
Total Turnover	67.5

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

In £m 2014-15 prices unless stated

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amount reported in the tables do not include any payments made to operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) Virgin East Coast replaced East Coast Main Line Rail during the year as the main operator on the East Coast Main Line. Income for both customers is included in this statement in separate tables.
- (5) Govia Thameslink replaced First Capital Connect during the year as the main operator on the Thameslink part of the network. Income for both customers is included in this statement in separate tables.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	227	215	(12)	221
Signalling shift managers	17	13	(4)	17
Local operations managers	20	15	(5)	18
Controllers	32	29	(3)	32
Electrical control room operators	11	9	(2)	13
Total signaller expenditure	307	281	(26)	301
Non-signaller expenditure				
Mobile operations managers	31	30	(1)	34
Managed stations	44	36	(8)	31
Performance	12	13	1	16
Customer relationship executives	4	6	2	4
Route enhancement managers	5	-	(5)	(1)
Weather	15	18	3	-
Other	33	12	(21)	9
Operations delivery	3	-	(3)	1
HQ - Operations services	1	-	(1)	-
HQ - Performance and planning	1	-	(1)	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	28	27	(1)	46
Other operating income	(40)	(19)	21	-
Total non-signaller expenditure	137	123	(14)	140
Total network operations expenditure	444	404	(40)	441
Support costs				
Core support costs				
Human resources	38	56	18	57
Information management	61	58	(3)	54
Government and corporate affairs	14	17	3	17
Group strategy	8	10	2	13
Finance	16	26	10	16
Business services	14	13	(1)	13
Accommodation	73	69	(4)	74
Utilities	38	39	1	41
Insurance	43	45	2	33
Legal and inquiry	6	5	(1)	4
Safety and sustainable development	22	10	(12)	14
Strategic sourcing	6	9	3	8
Business change	2	4	2	3
Other corporate functions	30	4	(26)	25
Core support costs	371	365	(6)	372
Other support costs				
Asset management services	31	37	6	41
Network Rail telecoms	44	42	(2)	45
National delivery service	-	5	5	3
Infrastructure Projects	(17)	-	17	(51)
Commercial property	(4)	(3)	1	24
Group costs	(52)	(6)	46	137
Total other support costs	2	75	73	199
Total support costs	373	440	67	571
Traction electricity, industry costs and rates				
Traction electricity	274	242	(32)	268
Business rates	140	139	(1)	136
British transport police costs	74	67	(7)	71
RSSB costs	10	8	(2)	8
ORR licence fee and railway safety levy	15	16	1	19
Reporters fees	1	3	2	-
Other industry costs	1	2	1	-
Total traction electricity, industry costs and rates	515	477	(38)	502
Total network operations expenditure, support costs, traction electricity, industry costs and rates	1,332	1,321	(11)	1,514

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

In £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs of £19m in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are 10 per cent higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 with Network Operations costs of £411m (2014/15 prices). However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, there have been delays implementing efficiency strategies in the current year. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that ceteris paribus, costs would exceed the regulatory allowance for 2014/15. Costs are marginally higher than the previous year, mostly as a result of pay awards being higher than inflation. There are also some extra costs for managed stations where as responsibility for Reading and Bristol stations have transferred to Network Rail in 2014/15 resulting in extra costs (but also additional property income).
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (5) Human Resources - costs are noticeably lower than the determination and the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Further breakdown of HR costs can be found in Statement 7b.
- (6) Information Management – costs are higher than the determination and the previous year. This increase in cost compared to the prior year was expected in the regulator's determination in order to fund the requirement of the Traffic Management system. This is a cross-functional initiative aimed at improving network capability for predicting and managing disruptions in conjunction with operator organisations. This programme has been delayed but IM have brought forward some other initiatives from later in the control period such as upgrades to equipment to utilise the spare resources in the department.

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

In £m 2014-15 prices unless stated

- (7) Finance – costs were noticeably lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in 2013/14 year-on-year costs are consistent.
- (8) Accommodation – these property expenses were higher than the determination due to Network Rail utilising a more expensive property portfolio than the regulator assumed. The regulator assumed that costs would noticeably reduce in the first year of the control period but costs have actually increased. This was mostly due to new office space being acquired in London.
- (9) Insurance - costs are in line with the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. In 2014/15 there were relatively few significant events which resulted in higher incentive regime costs which would have been covered through the insurance arrangements in place in CP4. The notable exception was the tunnel collapse causing in the closure of the line between Leamington Spa and Banbury, resulting in additional Schedule 4 compensation payments. Costs are higher than last year due to these increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive given the perceived risk associated with Network Rail by insurers.
- (10) Safety and sustainable development - Costs are much higher than the determination and the previous financial year. This is due to the company focussing even more on safety by investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the prior year and in the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are funded by savings made in these areas.
- (11) Other corporate functions – costs are in line with the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or did not expect the same level of organisational requirement. The savings compared to the PR13 in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b.
- (12) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination and in 2013/14 within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.
- (13) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities.
- (14) Infrastructure Projects - most of the costs incurred by projects are capitalised and therefore, there is usually minimal net costs within Infrastructure Projects. The amount in Infrastructure Projects for the current year relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (15) Commercial Property – costs are in line with the regulatory assumption but significantly lower than last year. As noted in last year's Regulatory financial statements the 2013/14 costs include some one-off costs relating to commercial claims. Excluding the impact of these costs the expense in 2013/14 is more in line with the 2014/15 costs.

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

In £m 2014-15 prices unless stated

- (16) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (17) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher electricity charges and British Transport Police costs.
- (18) Traction electricity – costs are in line with the prior year but significantly higher than the determination. Network Rail has limited ability to influence traction electricity costs which are driven by the prevailing market rates of these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in the financial year are higher than the determination due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also higher than the Regulator assumed.
- (19) British transport police costs - costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were noticeably higher than the regulator assumed when preparing their CP5 determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.

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

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	210	252
Operations and customer services non-signalling	-	-
MOMS	22	31
Control	36	43
Planning & Performance Staff Costs	28	27
Managed Stations Staff Costs	16	16
Operations Management Staff Costs	20	22
Other	109	53
Total operations & customer services costs	441	444
Total Network Operations	441	444
Support		
Human resources		
Functional support	26	14
Training (inc Westwood)	19	10
Graduates	2	-
Apprenticeships	6	8
Other	4	6
Total human resources	57	38
Information management		
Support	7	6
Projects	2	1
Licences	-	-
Business operations	45	54
Other	-	-
Total information management	54	61
Finance	16	16
Business Change	3	2
Contracts & procurement	8	-
Strategic Sourcing (National Supply Chain)	-	6
Planning & development	13	8
Safety & compliance	14	-
Other corporate services	48	14
Commercial property	97	69
Infrastructure Projects	(51)	(17)
Route Services	11	16
Asset management & Engineering/Asset heads	128	-
National delivery service	3	-
Utilities	-	38
Network Rail telecoms	-	44
Digital Railway	-	15
Safety Technical & Engineering	-	38
Government & Corporate Affairs	-	14
Business Services	-	14
Route Asset Management	-	-
Legal and inquiry	-	6
Group/central		
Pensions	1	-
Insurance	33	43
Redundancy/reorganisation costs	62	15
Staff incentives/Bonus Reduction	4	(23)
Accommodation & Support Recharges	(3)	(25)
ORR financial penalty	71	(21)
Other	2	2
Total group/central costs	170	(9)
Total support	571	373
Total network operations and support costs	1,012	817

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

In £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs of £19m in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these activities but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (4) Human Resources - costs are noticeably lower than the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses.
- (5) Information Management – increase in cost compared to the prior year was expected due to the requirements of the Traffic Management system. This is a cross-functional initiative aimed at improving network capability for predicting and managing disruptions in conjunction with operator organisations. This programme has been delayed but IM have brought forward some other initiatives from later in the control period such as upgrades to equipment to utilise the spare resources in the department. This is all shown in the Business operations category.
- (6) Contracts & procurement – activities previously categories as Contracts & procurement are now included within Strategic sourcing (National Supply Chain). Consequently, there are no Contracts & procurement costs reported for 2014/15.
- (7) Strategic sourcing (National Supply Chain) - activities previously categories as Contracts & procurement are now included within Strategic sourcing (National Supply Chain). Consequently, there are no Strategic sourcing (National Supply Chain) costs reported for 2013/14.
- (8) Safety & compliance – the costs are noticeably lower than last year. The activities previously undertaken by this department are now incorporated into the operations of the Safety Technical & Engineering team.
- (9) Other corporate services - in 2013/14 this included Government & Corporate Affairs, Business Services and Legal. These have been split out this year to provide more information of Network Rail's costs.
- (10) Property – costs are notably lower than the previous year. As noted in last year's Regulatory financial statements the 2013/14 costs were unusually high due to one-off amounts included for commercial claims. With no such items this year, the 2014/15 costs are more in line with expectation.
- (11) Infrastructure Projects - most of the costs incurred by projects are capitalised and therefore, there is usually minimal net costs within Infrastructure Projects. In 2013/14 inter-departmental recharges were included as a credit in Infrastructure Projects. This year, to be consistent with the presentation in the regulator's PR13, these recharges are included within Group costs (see below). The amount in Infrastructure Projects for the current year relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.

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

In £m 2014-15 prices unless stated

- (12) Route services – these costs have noticeably increased since 2013/14. As noted above, certain activities have transferred from Human Resources to the routes which has resulted in savings in Human Resources costs but higher Route services costs.
- (13) Asset management & engineering/ Asset heads – in last year's Regulatory financial statements this cost category included a number of activities. To improve visibility and clarity for costs in control period 5 these activities are now shown separately (Utilities, Telecoms, Digital Railway, certain elements of Safety, technical & engineering). On a like for like basis the activities in the category previously termed Asset management & engineering/ Asset heads have decreased marginally due to various efficiency initiatives.
- (14) Utilities - in the previous control period this was included within Asset management & engineering/ Asset heads but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are slightly lower than the previous year as a result of improved utility procurement strategies and favourable movements in market prices.
- (15) Telecoms - in the previous control period this was included within Asset management & engineering/ Asset heads but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are slightly higher than the previous year which includes the extra costs of FTN/ GSM-R (including FTNx) activity.
- (16) Digital railway - in the previous control period the activities of this function were included within Asset management & engineering/ Asset heads. To improve understanding in control period 5 this is now shown as a separate category to reflect the organisational structure of Network Rail. On a like-for-like basis costs in this area are broadly consistent with the previous year.
- (17) Safety, technical & engineering – in the previous control period the activities of this function were divided between Safety & compliance and Asset management & engineering/ Asset heads. To improve understanding in control period 5 this is now shown as a separate category to reflect the organisational structure of Network Rail. On a like-for-like basis costs in this area are broadly consistent with the previous year.
- (18) Government & corporate affairs - in the previous control period this was included within Other corporate services but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis costs are slightly lower than last year due certain activities transferring to Legal and inquiry, achievement of some minor efficiencies and the inclusion of some one-off publicity campaigns in 2013/14.
- (19) Business Services – in the previous control period this was included within Other corporate services but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are in line with the previous year.
- (20) Route Asset Management – costs last year were all recovered or off-charged to other activities. The increase in cost this year reflects the increase in the size and scope of route asset management. As part of the move towards devolved, independent routes to optimise decision making and generate operational improvements additional expertise and knowledge in this area is required for each of the routes.
- (21) Legal and inquiry – in the previous control period this was included within Other corporate services but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are higher than the previous year mostly due to activities transferring under the control of this department which were previously included within Finance and Government & Corporate Affairs.
- (22) Group – Insurance - costs are perceptibly higher than the previous year. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the cost of insurance premiums demanded by the market is now higher. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive given the perceived risk associated with Network Rail in insurance markets.
- (23) Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there was also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company resulting in fewer redundancy payments.

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

In £m 2014-15 prices unless stated

- (24) Group – staff incentives - this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans.
- (25) Group – Accommodation & Support recharges – the credit in the current year relates to recharges made to the Infrastructure Projects department of Network Rail to reflect the costs incurred by this area (such as accommodation, use of IT equipment etc). These costs are credited in Support costs and included in the project costs in renewals and enhancements as these are specifically connected with the delivery of capital expenditure which is in line with the guidance in International Accounting Standards IAS 16 *Property, Plant & Equipment*. The amounts recharged in 2014/15 are in line with the amounts included in the regulator's PR13 settlement. Last year these costs have been reported under the Infrastructure Projects heading.
- (26) Group - in the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5.

Statement 7c: Insurance reconciliation, England & Wales

in £m 2014-15 prices unless stated

A) Reconciliation of costs	Market based insurance			Self insurance Claims recognised			Total	
Risk	Underlying cost	Claims paid	Market premiums A	Underlying cost	by the captive B	Captive premiums	Other C	Total cost D
Property	-	-	3	4	-	9	-	3
Business interruption	-	-	4	52	31	10	-	35
Terrorism	-	-	9	-	-	-	-	9
Employer's liability	-	-	1	2	2	4	-	3
Public & products liability	-	-	5	6	4	8	-	9
Motor	-	-	1	2	2	3	-	3
Construction all risks	9	3	1	3	2	1	-	3
Other cover	1	-	9	1	1	4	1	11
Investment return	-	-	-	-	-	-	1	1
Total	10	3	33	70	42	39	2	77

Total insurance recognised in:

Schedule 4 & 8	-	-	-	52	31	10	-	31
Operations	-	-	-	-	-	-	-	-
Support costs	10	3	33	18	11	-	2	46
Maintenance	-	-	-	-	-	-	-	-
Renewals	-	-	-	-	-	-	-	-
Enhancements	-	-	-	-	-	-	-	-
Total	10	3	33	70	42	10	2	77

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

In £m 2014-15 prices unless stated

Notes:

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

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

in £m 2014-15 prices unless stated

	2014-15				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing keepers	230	(3)	-	227	215	-	-	215	(15)	3	-	(12)
Signalling shift managers	17	-	-	17	13	-	-	13	(4)	-	-	(4)
Local operations managers	21	(1)	-	20	15	-	-	15	(6)	1	-	(5)
Controllers	35	(3)	-	32	29	-	-	29	(6)	3	-	(3)
Electrical control room operators	12	(1)	-	11	9	-	-	9	(3)	1	-	(2)
Total signaller expenditure	315	(8)	-	307	281	-	-	281	(34)	8	-	(26)
Non-signaller expenditure												
Mobile operations managers	32	(1)	-	31	30	-	-	30	(2)	1	-	(1)
Managed stations	43	1	-	44	36	-	-	36	(7)	(1)	-	(8)
Performance	13	(1)	-	12	13	-	-	13	-	1	-	1
Customer relationship executives	6	(2)	-	4	6	-	-	6	-	2	-	2
Route enhancement managers	13	(8)	-	5	-	-	-	-	(13)	8	-	(5)
Weather	15	-	-	15	18	-	-	18	3	-	-	3
Other	49	(16)	-	33	12	-	-	12	(37)	16	-	(21)
Operations delivery	48	(45)	-	3	-	-	-	-	(48)	45	-	(3)
HQ - Operations services	1	-	-	1	-	-	-	-	(1)	-	-	(1)
HQ - Performance and planning	4	(3)	-	1	-	-	-	-	(4)	3	-	(1)
HQ - Stations and customer services	-	-	-	-	-	-	-	-	-	-	-	-
HQ - Other	32	(4)	-	28	27	-	-	27	(5)	4	-	(1)
Other operating income	-	-	(40)	(40)	(1)	-	(18)	(19)	(1)	-	22	21
Total non-signaller expenditure	256	(79)	(40)	137	141	-	(18)	123	(115)	79	22	(14)
Total network operations expenditure	571	(87)	(40)	444	422	-	(18)	404	(149)	87	22	(40)

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

in £m 2014-15 prices unless stated

	2014-15				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	45	(4)	(3)	38	58	-	(2)	56	13	4	1	18
Information management	86	(22)	(3)	61	62	-	(4)	58	(24)	22	(1)	(3)
Government and corporate affairs	15	(1)	-	14	17	-	-	17	2	1	-	3
Group strategy	16	(7)	(1)	8	10	-	-	10	(6)	7	1	2
Finance	16	-	-	16	26	-	-	26	10	-	-	10
Business services	15	(1)	-	14	14	-	(1)	13	(1)	1	(1)	(1)
Accommodation	74	(1)	-	73	69	-	-	69	(5)	1	-	(4)
Utilities	53	(2)	(13)	38	39	-	-	39	(14)	2	13	1
Insurance	43	-	-	43	45	-	-	45	2	-	-	2
Legal and inquiry	6	-	-	6	5	-	-	5	(1)	-	-	(1)
Safety and sustainable development	27	(5)	-	22	10	-	-	10	(17)	5	-	(12)
Strategic sourcing	6	-	-	6	20	-	(11)	9	14	-	(11)	3
Business change	2	-	-	2	4	-	-	4	2	-	-	2
Other corporate functions	255	(177)	(48)	30	4	-	-	4	(251)	177	48	(26)
Core support costs	659	(220)	(68)	371	383	-	(18)	365	(276)	220	50	(6)
Other support costs												
Asset management services	57	(24)	(2)	31	54	-	(17)	37	(3)	24	(15)	6
Network Rail telecoms	68	(17)	(7)	44	42	-	-	42	(26)	17	7	(2)
National delivery service	(5)	1	4	-	26	-	(21)	5	31	(1)	(25)	5
Infrastructure Projects	288	(302)	(3)	(17)	-	-	-	-	(288)	302	3	17
Commercial property	42	(16)	(30)	(4)	23	-	(26)	(3)	(19)	16	4	1
Group costs	14	-	(66)	(52)	(2)	-	(4)	(6)	(16)	-	62	46
Total other support costs	464	(358)	(104)	2	143	-	(68)	75	(321)	358	36	73
Total support costs	1,123	(578)	(172)	373	526	-	(86)	440	(597)	578	86	67

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

In £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs of £19m in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) The PR13 assumed that no costs within Network operations or Support would be capitalised. In the Regulatory financial statements for CP4, Network Rail disclosed costs recovered (a combined figure for capital and operational items) with the statement that the majority related to capital projects. Therefore, it was highly unlikely that there would be no capitalised costs in CP5. This is particularly true of Infrastructure Projects, the department responsible for delivering large parts of Network Rail's renewals and enhancements programmes. Therefore, as the PR13 comparatives for gross costs and own costs capitalised appear to be understated the below comments will focus on the net costs position by function.
- (3) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (4) Network Operations costs are 10 per cent higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 with Network Operations costs of £411m (2014/15 prices). However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that, ceteris paribus, costs would exceed the regulatory allowance for 2014/15. Costs are marginally higher than the previous year, mostly as a result of pay awards being higher than inflation. There are also some extra costs for managed stations where as responsibility for Reading and Bristol stations have transferred to Network Rail in 2014/15 resulting in extra costs (but also additional property income). Other operating income is higher than the regulator planned due to additional proceeds from disused rail disposal, recovery of costs for work undertaken on third party assets and litter clearance. Own costs capitalised were in line with the previous year.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (6) Human Resources - costs are noticeably lower than the determination and the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Further breakdown of HR costs can be found in Statement 7b.

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

In £m 2014-15 prices unless stated

- (7) Information Management – costs are higher than the determination and the previous year. This increase in cost compared to the prior year was expected in the regulator's determination in order to fund the requirement of the Traffic Management system. This is a cross-functional initiative aimed at improving network capability for predicting and managing disruptions in conjunction with operator organisations. This programme has been delayed but IM have brought forward some other initiatives from later in the control period such as upgrades to equipment to utilise the spare resources in the department. A certain amount of Information management staff costs relate to the construction and development of assets (largely Information technology assets). Therefore, an element of the gross costs of this department are capitalised.
- (8) Finance – costs were noticeably lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in 2013/14 year-on-year costs are consistent.
- (9) Accommodation – these property expenses were higher than the determination due to Network Rail utilising a more expensive property portfolio than the regulator assumed. The regulator assumed that costs would reduce noticeably in the first year of the control period but costs have actually increased. This was mostly due to new office space being acquired in London.
- (10) Utilities – net costs are in line with the determination but Gross costs are higher which is offset by higher Other operating income. This appears to be because the Other operating income Network Rail receives from passing through utility costs to customers appears to be included in the Strategic sourcing department in the PR13 allowances.
- (11) Insurance - costs are in line with the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. In 2014/15 there were relatively few significant events which resulted in higher incentive regime costs which would have been covered through the insurance arrangements in place in CP4. The notable exception was the tunnel collapse causing in the closure of the line between Leamington Spa and Banbury, resulting in additional Schedule 4 compensation payments. Costs are higher than last year due to these increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive given the perceived risk associated with Network Rail by insurers.
- (12) Safety and sustainable development - Costs are much higher than the determination and the previous financial year. This is due to the company focussing even more on safety by investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the prior year and in the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are funded by savings made in these areas.
- (13) Strategic sourcing – net costs are broadly in line with the regulator's determination but Gross costs and Other operating income are both lower. The regulator assumed that income received from the pass through of utility costs would be managed by Strategic sourcing. This activity is instead recorded within Utilities by Network Rail.

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

In £m 2014-15 prices unless stated

- (14) Other corporate functions – costs are in line with the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or did not expect the same level of organisational requirement. The savings compared to the PR13 in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b. Higher Gross and Other operating income is largely due to services provided by Route asset management teams to third parties. The regulator assumed that some of this income (and corresponding costs) would be included within Asset management services but with Network Rail's move to a devolved, locally-focussed business model most of these activities have been transferred to the Other corporate functions heading.
- (15) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination and in 2013/14 within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area. Gross costs and Other operating income are both lower than the regulator assumed. As noted above, this activity (and the costs and corresponding income) is reported within Other corporate functions to reflect where the management responsibilities now lie.
- (16) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities. Gross costs and Other operating income are lower than the regulator assumed as most of the National Delivery Services activities are within Network maintenance. This does not change the net cost allocation between Network maintenance and Support which is still consistent with the regulator's assumptions in the PR13.
- (17) Infrastructure Projects - most of the costs incurred by projects are capitalised and therefore, there is usually minimal net costs within Infrastructure Projects. The amount in Infrastructure Projects for the current year relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (18) Commercial Property – costs are in line with the regulatory assumption but significantly lower than last year. As noted in last year's Regulatory financial statements the 2013/14 costs include some one-off costs relating to commercial claims. Excluding the impact of these costs the expense in 2013/14 is more in line with the 2014/15 costs.
- (19) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments. Other operating income is higher than the regulatory assumption due to some additional income being recognised in Group for work carried out on external parties' assets (and not on Network Rail's own network). There is an offsetting amount in Gross costs and so no impact upon Group's net costs.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	459	398	(61)	462
Signalling	173	146	(27)	149
Civils	100	124	24	141
Buildings	35	45	10	62
Electrical power and fixed plant	86	90	4	73
Telecoms	18	19	1	24
Other network operations	186	149	(37)	101
Asset management services	35	32	(3)	28
National Delivery Service	(4)	40	44	9
Property	11	5	(6)	5
Group	(19)	(16)	3	(18)
Total maintenance expenditure	1,080	1,032	(48)	1,036

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

In £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs by £169m compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs of £19m in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are higher than the determination and the prior year. The main contributor to this was Network Rail's decision to reduce the level of incentive payouts to senior management and instead, re-invest this money into programmes to improve the safety and performance of the network. A significant amount was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Therefore, Network Rail were planning to have higher track maintenance costs than the PR13 even if National Delivery Services were not off-charged. Costs are in line with the previous year, which also included a full off-charge of National Delivery Services activities, despite an increase in network traffic (and so wear and tear on the network) compared to CP4.
- (4) Signalling - costs are higher than the determination and the previous year. One of the notable contributing factors has been the delay in implementing renewals programmes, necessitating greater maintenance costs to sustain the quality of the asset. Also, Network Rail has increased the level of maintenance to try to reduce the number of signalling failures and so improve train performance, reducing passenger delays and Schedule 8 costs.
- (5) Civils – costs were lower than the determination mainly as a result of a lower level of Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are lower than the prior year mostly due to a lower level of Reactive Maintenance required this year compared to 2013/14.

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

In £m 2014-15 prices unless stated

- (6) Buildings – there were no maintenance costs for Buildings reported in last year's Regulatory financial statements as the regulator chose to fund reactive maintenance works through Renewals last control period whereas this year, to be consistent with International Accounting Standards (IAS), these costs are accounted for as maintenance. The prior year has been restated to reflect these changes and provide a like-for-like comparison. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance between the actual and PR13 in the year is mostly due to differences in the reactive maintenance spend which has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (7) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category and accounts for the spend being higher than the regulator's assumption in 2014/15. Costs are noticeably higher than 2013/14 which is a combination of the investment in the programmes noted above and a significant increase in the asset management organisation within the routes. As part of the move towards a devolved, more accountable railway the capabilities and responsibilities of the local asset management teams have increased significantly since 2013/14, as planned in Network Rail's plans for CP5, and reflected in the expenditure allowances set by the regulator.
- (8) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The small credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided.
- (9) Property – costs were higher than the regulatory assumption and the prior year mostly due to a tenant being declared bankrupt during the year. They are now unable to fulfil their obligations to restore a Network Rail owned site to the required condition under the terms of their lease. The site has suffered from contamination which Network Rail will now have to bear the remediation costs.

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

	2014-15
Track	7,341
Signalling	2,927
Civils	261
Buildings	155
Electrical power and fixed plant	1,381
Telecoms	432
Other network operations	1,492
Asset management services	-
National delivery service	669
Property	-
Group	-
Other maintenance	-
Total network maintenance headcount	14,658

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

Notes:

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

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

in £m 2014-15 prices unless stated

	2014-15
Ashford	23
Bedford	18
Bletchley	27
Bristol	19
Brighton	24
Carlisle	23
Clapham	25
Cardiff	29
Croydon	23
Derby	21
Doncaster	18
Eastleigh	22
Hitchin	22
Ipswich	26
Leeds	17
Liverpool	22
London Bridge	22
London Euston	27
Manchester	28
Newcastle	21
Orpington	19
Plymouth	15
Preston	16
Reading	16
Romford	32
Saltley	23
Sandwell & Dudley	19
Sheffield	15
Shrewsbury	15
Stafford	20
Swindon	15
Tottenham	31
Warrington	20
Woking	27
York	19
Centrally managed	
Structures examinations	56
Major items of maintenance plant	6
HQ managed activities	58
Other	201
Total network maintenance	1,080

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

In £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) No PR13 comparison has been provided by the ORR for this schedule

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

	2014-15	Permanent	Agency
Ashford	321	320	1
Bedford	300	300	-
Bletchley	365	364	1
Bristol	367	366	1
Brighton	359	358	1
Carlisle	373	373	-
Clapham	300	300	-
Cardiff	417	416	1
Croydon	295	295	-
Derby	461	460	1
Doncaster	292	292	-
Eastleigh	300	298	2
Hitchin	343	342	1
Ipswich	405	405	-
Leeds	311	309	2
Liverpool	346	346	-
London Bridge	295	294	1
London Euston	322	322	-
Manchester	450	447	3
Newcastle	383	383	-
Orpington	260	260	-
Plymouth	315	314	1
Preston	273	271	2
Reading	336	331	5
Romford	430	426	4
Saltley	328	328	-
Sandwell & Dudley	307	304	3
Sheffield	318	317	1
Shrewsbury	259	259	-
Stafford	327	325	2
Swindon	258	256	2
Tottenham	429	428	1
Warrington	343	343	-
Woking	382	380	2
York	374	372	2
Centrally managed			
Route HQ	2,046	1,906	140
Other HQ	668	561	107
Total network maintenance	14,658	14,371	287

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

Notes:

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

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	803	659	(144)	947
Signalling	618	711	93	608
Civils	460	421	(39)	618
Buildings	168	152	(16)	257
Electrical power and fixed plant	118	236	118	215
Telecoms	73	80	7	180
Wheeled plant and machinery	64	148	84	41
Information Technology	143	80	(63)	93
Property	16	22	6	52
Other renewals	216	(162)	(378)	253
Total renewals expenditure	2,679	2,347	(332)	3,264

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

In £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs by £169m compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – track costs are higher than the regulator assumed. This is a combination of accelerating volumes and higher than expected underlying costs. Network Rail planned to spend £867m in the year (refer to Statement 14) which included an assessment that higher underlying costs would mean the regulator's assumption would be overspent by over £170m on a like for like basis. This higher cost was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual underlying costs were higher than Network Rail planned for both plain line and switches & crossings partly due to contractor dispute issues (partly as a result of productivity problems arising from rationalising the supplier base) and lower than expected efficiencies from high output plant (arising from machinery failures, transition costs from bringing certain contractor staff in house to reduce long term costs and increase productivity). Track non-volume consists of Fencing and Slab track and is noticeably lower than the regulator assumed but, as Statement 14 shows, not as far behind Network Rail's own plan. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Expenditure was lower than the previous year with the largest contribution coming from conventional plain line renewals which was mainly a result of lower volumes delivered in the current year. In CP4 a great deal of track activity was delivered towards the end of the five-year period, with 25 per cent of the CP4 expenditure occurring in 2013/14.
- (3) Signalling – overall, expenditure was lower than the determination expected. However, this was largely due to deferral of activity, which was partly offset by higher than expected costs on a like for like basis. These extra costs included increases in the expected total costs of some large multi-year re-signalling projects such as Cardiff and Watford. Also, there were extra costs incurred from completing some control period 4 projects for which the regulator has not provided any funding, notably ROC (Regional Operating Centre) projects at Romford and Rugby. Completion of the ROC projects are fundamental to the successful implementation of the Network Operating Strategy which is supposed to generate long-term operational savings and performance improvements through rationalising the number of signalling boxes Network Rail uses. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is generally in line with the previous year.

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

In £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spent more on civils this year than the regulatory assumption. Civils underbridges – expenditure was lower than the regulator assumed largely due to a re-profiling of volumes until later years of the control period. Earthworks expenditure is higher than the regulator's assumption due to increased amounts of emergency works. The extreme weather in 2013/14 impacted upon the railway infrastructure requiring remedial costs which have been recognised in the current year. This has also led to the category Other assets expenditure being higher than the regulator's assumption due to increased spend on coastal and estuary defences. Expenditure is noticeably lower than the previous year. In CP4 Government provided some additional funds for accelerated civils expenditure as part of a fiscal stimulus package for the economy. In addition, the extreme weather in 2013/14 necessitated a great deal of emergency works to be carried out (most visibly at Dawlish).
- (5) Buildings – expenditure in the year was slightly higher than the determination. The main reason for this is increased spending on Lineside and MDU buildings. However, expenditure was lower than Network Rail planned mostly due to lower expenditure on franchised stations. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4. In addition, costs in 2013/14 were distorted by the impact of additional works at Birmingham New Street that the regulator consented to be treated as efficient overspend within the Buildings portfolio. Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (6) Electrical power and fixed plant – expenditure in the year was noticeably lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant, DC Distribution & SCADA as Network Rail seeks to find optimal delivery strategies for these programmes. The SCADA activity planned for CP4 did not materialise and so ORR has provided a rollover of funding for this programme (the costs are included in the CP4 rollover category) but delays in design have meant that the CP4 element of the funding has not yet been exhausted, much less the PR13 allowances. There was also slippage in the Kent DC distribution project. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (7) Telecoms – expenditure in the year was slightly below the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. Over half of the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5). Expenditure is higher than the previous year due to additional High output plant purchases and increased spend on Intervention items.

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

In £m 2014-15 prices unless stated

- (9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.
- (10) Property – costs are in line with the expectation in the determination but are lower than the prior year. This is mostly due to expenditure on the corporate office estate which can fluctuate year on year depending upon the scheduled property workbank. Notable projects delivered in the final year of CP4 included investment in modernising the national training centre at Westwood and constructing the York workforce development centre. This year there were fewer major office projects resulting in lower costs.

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, approximately £45m has been spent on ORBIS this year but as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
- c. Small plant – this is less than half of the amount in the regulator’s determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR’s view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- e. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. Expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company’s financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	252	211	(41)
High output renewal	208	114	(94)
Plain line refurbishment	52	23	(29)
S&C renewal	182	167	(15)
S&C refurbishment	28	34	6
Track non-volume	22	50	28
Off track	59	60	1
Total track	803	659	(144)
Signalling			
Full conventional resignalling	273	228	(45)
Modular resignalling	10	38	28
ERTMS resignalling	14	7	(7)
Partial conventional resignalling	92	161	69
Targeted component renewal	3	37	34
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	21	11	(10)
Operating strategy other capital expenditure	75	64	(11)
Level crossings	47	57	10
Minor works	77	74	(3)
Centrally managed costs	6	34	28
Total signalling	618	711	93
Civils			
Underbridges	144	194	50
Overbridges	50	31	(19)
Bridgeguard 3	2	-	(2)
Major structures	40	10	(30)
Tunnels	18	28	10
Other assets	51	38	(13)
Structures other	23	29	6
Earthworks	136	91	(45)
Other	(4)	-	4
Total civils	460	421	(39)
Buildings			
Managed stations	24	29	5
Franchised stations	104	96	(8)
Light maint depots	9	6	(3)
Depot plant	3	8	5
Lineside buildings	14	5	(9)
MDU buildings	12	6	(6)
NDS depots	2	2	-
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	168	152	(16)
Electrical power and fixed plant			
AC distribution	1	12	11
Overhead Line	37	35	(2)
DC distribution	24	51	27
Conductor rail	7	14	7
SCADA	-	25	25
Energy efficiency	4	2	(2)
System capability / capacity	2	11	9
Other electrical power	16	14	(2)
Fixed plant and rail heating	27	72	45
Total electrical power and plant	118	236	118

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Telecoms			
Operational communications	3	8	5
Network	4	10	6
SISS	5	26	21
Projects and other	4	10	6
Non-route capital expenditure	57	26	(31)
Total telecoms	73	80	7
Wheeled plant and machinery			
High output	20	74	54
Incident response	-	4	4
Infrastructure monitoring	3	4	1
Intervention	6	26	20
Materials delivery	20	-	(20)
On track plant	4	4	-
Seasonal	2	28	26
Locomotives	-	-	-
Fleet support plant	-	5	5
Road vehicles	9	3	(6)
S&C delivery	-	-	-
Total wheeled plant and machinery	64	148	84
Information Technology			
IM delivered renewals	127	71	(56)
Traffic management	16	9	(7)
Total information technology	143	80	(63)
Property			
MDUs/offices	11	15	4
Commercial estate	5	7	2
Corporate services	-	-	-
Total property	16	22	6
Other renewals			
Asset information strategy	3	56	53
Intelligent infrastructure	12	13	1
Faster isolations	9	34	25
LOWS	-	2	2
Small plant	4	10	6
Research and development	-	-	-
Phasing overlay	-	(277)	(277)
Engineering innovation fund	-	-	-
CP4 rollover	188	-	(188)
Other	-	-	-
West Coast	-	-	-
Total other renewals	216	(162)	(378)
Total renewals	2,679	2,347	(332)

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

In £m 2014-15 prices unless stated

Comments:

- (1) Renewals expenditure for the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5.
- (2) Track – track costs are higher than the regulator assumed. This is a combination of accelerating volumes and higher than expected underlying costs. Network Rail planned to spend £867m in the year (refer to Statement 14) which included an assessment that higher underlying costs would mean the regulator's assumption would be overspend by over £170m on a like for like basis. This higher unit cost was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual underlying costs were higher than Network Rail planned for both plain line and switches & crossings partly due to contractor dispute issues (partly as a result of productivity problems arising from rationalising the supplier base) and lower than expected efficiencies from high output plant (arising from machinery failures, transition costs from bringing certain contractor staff in house to reduce long term costs and increase productivity). Track non-volume consists of Fencing and Slab track and is noticeably lower than the regulator assumed but, as Statement 14 shows, not as far behind Network Rail's own plan. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years.
- (3) Signalling – overall, expenditure was lower than the determination expected. However, this was largely due to deferral of activity, which was partly offset by higher than expected costs on a like for like basis. These extra costs included increases in the expected total costs of some large multi-year re-signalling projects such as Cardiff and Watford. Also, there were extra costs incurred from completing some control period 4 projects for which the regulator has not provided any funding, notably ROC (Regional Operating Centre) projects at Romford and Rugby. Completion of the ROC projects are fundamental to the successful implementation of the Network Operating Strategy which is supposed to generate long-term operational savings and performance improvements through rationalising the number of signalling boxes Network Rail uses. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spend more on civils this year than the regulatory assumption. Civils underbridges – expenditure was lower than the regulator assumed largely due to a re-profiling of volumes until later years of the control period. Earthworks expenditure is higher than the regulator's assumption due to increased amounts of emergency works. The extreme weather in 2013/14 impacted upon the railway infrastructure requiring remedial costs which have been recognised in the current year. This has also led to the category Other assets expenditure being higher than the regulator's assumption due to increased spend on coastal and estuary defences.
- (5) Buildings – expenditure in the year was slightly higher than the determination. The main reason for this is increased spending on Lineside and MDU buildings. However, expenditure was lower than Network Rail planned mostly due to lower expenditure on franchised stations. Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).

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

In £m 2014-15 prices unless stated

- (6) Electrical power and fixed plant – expenditure in the year was noticeably lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant, DC Distribution & SCADA as Network Rail seeks to find optimal delivery strategies for these programmes. The SCADA activity planned for CP4 did not materialise and so ORR has provided a rollover of funding for this programme (the costs are included in the CP4 rollover category) but delays in design have meant that the CP4 element of the funding has not yet been exhausted, much less the PR13 allowances. There was also slippage in the Kent DC distribution project. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant.
- (7) Telecoms – expenditure in the year was only slightly below the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non-volume. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing of high output machinery. There was also significantly lower expenditure on seasonal and intervention items that the regulator expected offset by higher expenditure on materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of the savings have been included as financial performance this year (refer to Statement 5).
- (9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver.
- (10) Other renewals
- Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, approximately £50m has been spent on ORBIS this year but as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
 - Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding.
 - Small plant – this is less than half of the amount in the regulator's determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category.

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

In £m 2014-15 prices unless stated

- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- e. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. Expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2).

Statement 10: Other information, England & Wales

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	188	192	4	162
Access charge supplement Income	(181)	(180)	1	(139)
Net (income)/cost	7	12	5	23
Schedule 8				
Performance element income	(23)	-	23	-
Performance element costs	129	4	(125)	215
Access charge supplement Income	-	-	-	-
Net (income)/cost	106	4	(102)	215

B) Opex memorandum account

	2014-15	CP4
Volume incentive	9	49
Proposed income/(expenditure) to be included in the CP6		
Business Rates	1	-
RSSB Costs	2	-
ORR licence fee and railway safety levy	(1)	-
Reporters fees	(2)	-
Other industry costs	(1)	-
Difference in CP4 opex memo	(8)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	109
Total logged up items	-	158

D) Net income / (costs) from alliances:

	2014-15	2013-14
Payment from South West Trains	1	1
Total alliance income	1	1
Payment to South West Trains	(2)	(4)
Total alliance costs	(2)	(4)
Net alliance income / (cost)	(1)	(3)

Statement 10: Other information, England & Wales - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are lower than the determination due to more efficient planning of possessions and also from deferrals of renewals activity to later in the control period. When Network Rail measures its financial performance it does not take into account savings or additional expenditure generated by renewal activity re-profiling (refer to Statement 5). In addition, costs in the current year benefitted from some favourable settlements of commercial claims. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the in year cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2014/15. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2014/15 unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the year, with the majority of delay minutes being associated with infrastructure failures. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the in year cost cannot be compared to the 2013/14 number in a meaningful way.

Statement 10: Other information, England & Wales - continued

In £m 2014-15 prices unless stated

- (3) The opex memorandum currently shows a minor net income. This means that Network Rail's income in the PR18 will be adjusted to reflect this subject to the regulator's overall funding decisions for CP6. A large item in the opex memorandum is the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4. This meant that the regulator is compensating Network Rail for income shortfalls in CP4 during this control period. This is offset by the amounts Network Rail have earned in the current year under the volume incentive mechanism from increased traffic on the railway (refer to Statement 12). In addition, business rates attributable to England & Wales are higher than the regulator assumed.

Statement 12: Volume incentives, England & Wales

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year A	2013-14 baseline B	Baseline annual growth C	Incentive Rate D	Incentive Rate Unit
Passenger train miles (millions)	14	3	274	270	0.5%	1.46	pence per passenger train mile
Passenger farebox (millions)	31	6	8414	7,987	2.3%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(2)	-	19	18	4.2%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	2	-	20,535	19,231	6.0%	2.50	pence per freight 1,000 gross tonne miles
Total volume incentive	45	9					

The cumulative volume incentive is determined by the formula: $VI_t = (A_t - (B_{t-1} \times (1 + C_t))) \times D \times 5$

Where:

A_t = Actual in year quantity

B = 2014-15 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, England & Wales - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £9m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, England & Wales

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

Actual						Network Rail Business Plan		Difference to Business Plan			
		Unit of Measure (unit)	In year unit cost £/unit	Volume unit	Unit cost x volume £k/unit	Other non-volume costs £k	Total Cost £k	Volume unit	Total Cost £k	Volume unit	Total Cost £k
Ref	Description										
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	4,865	4,253	20,690	-	20,690	6,011	-	1,758	n/a
MNT005	Plain Line Stoneblowing (km)	km	7,428	1,346	9,998	-	9,998	3,103	-	1,757	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	174	23,140	4,034	-	4,034	17,318	-	(5,822)	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	229	11,057	2,529	-	2,529	9,766	-	(1,291)	n/a
MNT007	S&C Tamping (point end)	Point end	3,576	3,157	11,288	-	11,288	4,147	-	990	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	352	15,743	5,544	-	5,544	13,258	-	(2,485)	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	115	92,880	10,690	-	10,690	78,676	-	(14,204)	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	1,864	2,556	4,764	-	4,764	2,724	-	168	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	4	2,144,626	9,005	-	9,005	1,547,015	-	(597,611)	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	15	416,540	6,091	-	6,091	379,838	-	(36,702)	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	15	1,738,623	25,375	-	25,375	1,072,244	-	(666,379)	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	11	421,069	4,831	-	4,831	213,893	-	(207,176)	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	16,374	580	9,497	-	9,497	606	-	26	n/a
MNT122	S&C Maintenance (point end)	Point end	44	351,075	15,297	-	15,297	399,408	-	48,333	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	12,460	606	7,551	-	7,551	703	-	97	n/a
MNT124	S&C Stoneblowing (point end)	Point end	8,934	227	2,028	-	2,028	822	-	595	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	4,497	-	-	-	8,801	-	4,304	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	1,098	-	-	-	2,786	-	1,688	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	15	470,646	7,182	-	7,182	794,702	-	324,056	n/a
MNT073	Drainage (Yard)	Yard	14	305,383	4,204	-	4,204	795,220	-	489,837	n/a
MNT075	LX Management - Off Track (Each)	Each	272	14,773	4,020	-	4,020	14,793	-	20	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	81	31,880	2,568	-	2,568	28,294	-	(3,586)	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	175	1,746	306	-	306	7,965	-	6,219	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	3	5,594,219	16,731	-	16,731	4,311,911	-	(1,282,308)	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	141	12,758	1,799	-	1,799	2,250	-	(10,508)	n/a
N/A	Non volume track and off-track maintenance	£k	-	-	-	273,013	273,013	-	-	-	n/a
Total track and off-track maintenance			-	-	186,022	273,013	459,035	-	397,635	-	(61,400)
Signalling maintenance											
N/A	Non volume signalling maintenance	£k				172,780	172,780			-	n/a
Total signalling maintenance						172,780	172,780		145,512		(27,268)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, England & Wales - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

		Actual					Network Rail Business Plan		Difference to Business Plan		
		Unit of Measure (unit)	In year unit cost £/unit	Volume unit	Unit cost x volume £k/unit	Other non-volume costs £k	Total Cost £k	Volume unit	Total Cost £k	Volume unit	Total Cost £k
Ref	Description										
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	108,567	-	-	-	110,193	-	1,626	n/a
MNT221	Detailed Examinations	No.	-	7,700	-	-	-	9,271	-	1,571	n/a
MNT222	Underwater Examination	No.	-	1,396	-	-	-	1,509	-	113	n/a
MNT223	Ancillary Structure examination	No. detailed	-	634	-	-	-	542	-	(92)	n/a
MNT224	Hidden critical element examinations	No.	-	739	-	-	-	1,088	-	349	n/a
MNT225	Load carrying assessment	No. spans	-	6,775	-	-	-	10,967	-	4,192	n/a
MNT226a	Visual Examinations (Civils)	No.	-	49,611	-	-	-	54,400	-	4,789	n/a
N/A	Non volume civils maintenance	£k				100,612	100,612			-	n/a
Total civils maintenance						100,612	100,612		124,226		23,614
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	9,662	-	-	-	12,814	-	3,152	n/a
MNT227	5 yearly examinations	Each	-	519	-	-	-	709	-	190	n/a
N/A	Non volume buildings maintenance	£k				35,247	35,247			-	n/a
Total buildings maintenance						35,247	35,247		44,925		9,678
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	47	67,986	3,188	-	3,188	47,641	-	(20,345)	n/a
MNT209	Maintain DC Traction Power Supplies	Each	117	37,793	4,423	-	4,423	33,773	-	(4,020)	n/a
MNT211	Maintain OHL Components	Various	51	330,212	16,903	-	16,903	149,345	-	(180,867)	n/a
MNT212	Maintain Points Heating	Each	43	126,246	5,425	-	5,425	124,246	-	(2,000)	n/a
MNT213	Maintain Signalling Power Supplies	Number	89	28,325	2,525	-	2,525	33,003	-	4,678	n/a
N/A	Non volume electrical power and fixed plant maintenance	£k	-	-	-	53,899	53,899	-	-	-	n/a
Total electrical power and fixed plant maintenance						32,464	53,899	86,363	89,928		3,565
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£k				18,080	18,080			-	n/a
Total telecoms maintenance						18,080	18,080		18,856		776
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£k				185,857	185,857			-	n/a
Total other network operations maintenance						185,857	185,857		149,506		(36,351)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, England & Wales - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

					Actual	Network Rail Business Plan			Difference to Business Plan		
		Unit of Measure (unit)	In year unit cost £/unit	Volume unit	Unit cost x volume £k/unit	Other non-volume costs £k	Total Cost £k	Volume unit	Total Cost £k	Volume unit	Total Cost £k
Ref	Description										
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£k				34,817	34,817			-	n/a
Total asset management services maintenance						34,817	34,817		32,210		(2,607)
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£k				(4,730)	(4,730)			-	n/a
Total national delivery service maintenance						(4,730)	(4,730)		40,857		45,587
Property maintenance											
N/A	Non volume property maintenance	£k				11,597	11,596			-	n/a
Total property maintenance						11,597	11,596		5,044		(6,552)
Group maintenance											
N/A	Non volume group maintenance	£k				(18,998)	(18,998)			-	n/a
Total group maintenance						(18,998)	(18,998)		(15,991)		3,007
Total							1,080,659		1,032,708		(47,951)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, England & Wales - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	lkm	474	1,081	512	-	512	479	1,143	547	-	547	5	62	35	-	35
	Conventional	lkm	579	435	252	-	252	588	493	290	-	290	9	58	38	-	38
	High Output	lkm	552	377	208	-	208	538	394	212	-	212	(14)	17	4	-	4
	Refurbishment	lkm	193	269	52	-	52	176	256	45	-	45	(18)	(13)	(7)	-	(7)
	point ends																
	S&C		317	662	210	-	210	225	1,006	226	-	226	(93)	344	16	-	16
	Track Drainage		1	23,902	19	-	19	1	40,660	36	-	36	0	16,758	17	-	17
	Renewal	lm	-	5,830	-	-	-	-	7,343	-	-	-	-	1,513	-	-	-
	Refurbishment	lm	-	15,605	-	-	-	-	32,509	-	-	-	-	16,904	-	-	-
	New Build	lm	-	2,467	-	-	-	-	808	-	-	-	-	(1,659)	-	-	-
	Fencing		33	571	19	-	19	35	594	21	-	21	2	23	2	-	2
	Slab Track		-	-	-	3	3	1	-	-	3	3	1	-	-	-	-
	Off track		-	-	-	40	40	37	-	-	34	34	37	-	-	(6)	(6)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				760	43	803			830	38	867			70	(6)	64
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	392	n/a	n/a	n/a	-	460	n/a	n/a	n/a	-	68
	Full conventional resignalling	SEU	529	516	273	-	273	216	1,057	228	-	228	(313)	541	(45)	-	(45)
	Modular resignalling	SEU	-	-	10	-	10	629	70	44	-	44	629	70	34	-	34
	ERTMS resignalling	SEU	-	-	14	-	14	-	-	2	-	2	-	-	(12)	-	(12)
	Partial conventional resignalling	SEU	544	169	92	-	92	248	609	151	-	151	(296)	440	59	-	59
	Targeted component renewal	SEU	429	7	3	-	3	248	141	35	-	35	(180)	134	32	-	32
	Level crossings	No.	1,567	30	47	-	47	1,259	58	73	-	73	(308)	28	26	-	26
	Signalling other		-	-	-	179	179	-	-	-	150	150	-	-	-	(29)	(29)
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	21	21	n/a	n/a	n/a	11	11	n/a	n/a	n/a	(10)	(10)
	Operating strategy other capex		n/a	n/a	n/a	75	75	n/a	n/a	n/a	65	65	n/a	n/a	n/a	(10)	(10)
	Minor works		n/a	n/a	n/a	77	77	n/a	n/a	n/a	44	44	n/a	n/a	n/a	(33)	(33)
	Centrally managed costs		n/a	n/a	n/a	6	6	n/a	n/a	n/a	30	30	n/a	n/a	n/a	24	24
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				439	179	618			533	150	683			94	(29)	65

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	254	n/a	n/a	n/a	-	311	n/a	n/a	n/a	-	57
	Underbridges	m2	3	53,624	144	-	144	1	106,954	218	-	218	(1)	53,330	74	-	74
	Overbridges (incl BG3)	m2	6	9,426	52	-	52	3	23,850	59	-	59	(2)	14,424	7	-	7
	Tunnels	m2	1	16,073	18	-	18	1	27,359	28	-	28	0	11,286	10	-	10
	Major structures	m2	-	-	-	40	40	-	-	-	6	6	-	-	-	(34)	(34)
	Other structures assets		n/a	n/a	n/a	-	51	n/a	n/a	n/a	-	39	n/a	n/a	n/a	-	(12)
	Culverts	m2	3	4,432	13	-	13	7	1,838	12	-	12	4	(2,594)	(1)	-	(1)
	Footbridges	m2	11	544	6	-	6	5	1,504	8	-	8	(6)	960	2	-	2
	Coastal & Estuary Defences	m	3	6,999	23	-	23	2	1,740	4	-	4	(1)	(5,259)	(19)	-	(19)
	Retaining Walls	m2	3	3,350	9	-	9	4	3,614	15	-	15	1	264	6	-	6
	Earthworks	5-chain	76	1,576	119	-	119	29	2,748	80	-	80	(46)	1,172	(39)	-	(39)
	EW Drainage		2	10,748	17	-	17	-	33,813	31	-	31	(2)	23,065	14	-	14
	Renewal	lm	-	1,566	-	-	-	-	6,091	-	-	-	-	4,525	-	-	-
	Refurbishment	lm	-	1,017	-	-	-	-	1,270	-	-	-	-	253	-	-	-
	Maintenance	lm	-	2,755	-	-	-	-	21,150	-	-	-	-	18,395	-	-	-
	New Build	lm	-	5,410	-	-	-	-	5,302	-	-	-	-	(108)	-	-	-
	Structures other		-	-	-	23	23	-	-	-	14	14	-	n/a	-	(9)	(9)
	Other		-	-	-	(4)	(4)	-	-	-	(57)	(57)	-	n/a	-	(53)	(53)
	Total				401	59	460			455	(37)	418			54	(96)	(42)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	104	n/a	n/a	n/a	-	144	n/a	n/a	n/a	-	40
	Footbridges	m2	6	1,326	8	-	8	-	4,968	n/a	n/a	-	n/a	3,642	n/a	n/a	-
	Train Sheds	m2	1	7,753	5	-	5	-	23,669	n/a	n/a	-	n/a	15,916	n/a	n/a	-
	Canopies	m2	0	45,801	13	-	13	-	17,976	n/a	n/a	-	n/a	(27,825)	n/a	n/a	-
	Platforms	m2	1	51,901	27	-	27	-	77,503	n/a	n/a	-	n/a	25,602	n/a	n/a	-
	Buildings	m2	0	22,575	4	-	4	-	6,116	n/a	n/a	-	n/a	(16,459)	n/a	n/a	-
	Lifts & Escalators	No.	1,000	4	4	-	4	-	9	n/a	n/a	-	n/a	5	n/a	n/a	-
	Other		-	-	-	43	43	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	24	n/a	n/a	n/a	-	23	n/a	n/a	n/a	n/a	(1)
	Footbridges	m2	-	120	-	-	-	-	-	n/a	n/a	-	n/a	(120)	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	1,600	n/a	n/a	-	n/a	1,600	n/a	n/a	-
	Canopies	m2	4	265	1	-	1	-	5,930	n/a	n/a	-	n/a	5,665	n/a	n/a	-
	Platforms	m2	5	217	1	-	1	-	2,600	n/a	n/a	-	n/a	2,383	n/a	n/a	-
	Buildings	m2	2	6,432	11	-	11	-	5,554	n/a	n/a	-	n/a	(878)	n/a	n/a	-
	Lifts & Escalators	No.	1,000	3	3	-	3	-	4	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	8	8	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	32,682	9	-	9	-	96,689	-	-	19	n/a	64,007	n/a	n/a	10
	Buildings	m2	-	232	-	-	-	-	66,101	n/a	n/a	-	n/a	65,869	n/a	n/a	-
	Depot Shed	m2	-	32,450	-	-	-	-	30,588	n/a	n/a	-	n/a	(1,862)	n/a	n/a	-
	Lineside Buildings	m2	3	5,356	14	-	14	-	18,704	n/a	n/a	23	n/a	13,348	n/a	n/a	9
	MDU Buildings	m2	2	7,397	12	-	12	-	22,160	n/a	n/a	16	n/a	14,763	n/a	n/a	4
	Depot Plant		-	-	-	3	3	-	-	n/a	n/a	12	n/a	n/a	n/a	n/a	9
	NDS Depots		-	-	-	2	2	-	-	n/a	n/a	6	n/a	n/a	n/a	n/a	4
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(43)	n/a	n/a	n/a	n/a	(43)
	Total				112	56	168			-	-	200			-	-	32

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	37	-	-	-	-	35	-	-	-	-	(2)
	Overhead Line Equipment (OLE) Re-wiring	wire runs	762	21	16	-	16	-	36	n/a	n/a	-	n/a	15	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	-	56	n/a	n/a	-	n/a	56	n/a	n/a	-
	Structure Renewals	No.	99	81	8	-	8	-	113	n/a	n/a	-	n/a	32	n/a	n/a	-
	Other		-	-	-	13	13	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	269	26	7	-	7	-	35	n/a	n/a	13	n/a	9	n/a	n/a	6
	AC distribution		-	-	-	-	1	-	-	n/a	n/a	12	n/a	n/a	n/a	n/a	11
	HV Switchgear Renewal	No.	-	21	-	-	-	-	16	n/a	n/a	-	n/a	(5)	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	21	n/a	n/a	-	n/a	21	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	24	-	-	n/a	n/a	49	n/a	n/a	n/a	n/a	25
	HV Switchgear Renewal	No.	-	2	-	1	1	-	2	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	667	6	4	-	4	-	40	n/a	n/a	-	n/a	34	n/a	n/a	-
	LV Switchgear Renewal	No.	62	65	4	-	4	-	78	n/a	n/a	-	n/a	13	n/a	n/a	-
	LV Cables	km	227	22	5	-	5	-	20	n/a	n/a	-	n/a	(2)	n/a	n/a	-
	Transformer Rectifiers	No.	125	8	1	-	1	-	2	n/a	n/a	-	n/a	(6)	n/a	n/a	-
	Other		-	-	-	9	9	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	27	-	-	n/a	n/a	72	n/a	n/a	n/a	n/a	45
	Signalling Power Cable Renewal	km	545	22	12	-	12	-	247	n/a	n/a	-	n/a	225	n/a	n/a	-
	Principle Supply Point Renewal	No.	250	12	3	-	3	-	20	n/a	n/a	-	n/a	8	n/a	n/a	-
	Other		-	-	-	12	12	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point Ends	42	71	3	-	3	-	334	n/a	n/a	-	n/a	263	n/a	n/a	(3)
	SCADA		-	-	-	-	-	-	-	n/a	n/a	25	n/a	n/a	n/a	n/a	25
	Energy efficiency		-	-	-	4	4	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(4)
	System capability / capacity		-	-	-	2	2	-	-	n/a	n/a	11	n/a	n/a	n/a	n/a	9
	Other electrical power		-	-	-	13	13	-	-	n/a	n/a	14	n/a	n/a	n/a	n/a	1
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					63	55	118			-	-	231			-	-	113

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	5	-	-	-	-	18	n/a	n/a	n/a	n/a	13
	Customer Information Systems	No.	9	112	1	-	1	-	174	n/a	n/a	-	n/a	62	n/a	n/a	-
	Public Address	No.	3	296	1	-	1	-	975	n/a	n/a	-	n/a	679	n/a	n/a	-
	CCTV	No.	13	151	2	-	2	-	253	n/a	n/a	-	n/a	102	n/a	n/a	-
	Clocks	No.	-	-	1	-	1	-	57	n/a	n/a	-	n/a	57	n/a	n/a	-
	Operational Comms		-	-	-	-	3	-	-	n/a	n/a	7	n/a	n/a	n/a	n/a	4
	PABX Concentrator	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Processor Controlled Concentrator	Lines	-	21	-	-	-	-	1,300	n/a	n/a	-	n/a	1,300	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	222	9	2	-	2	-	67	n/a	n/a	-	n/a	58	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	-	26	n/a	n/a	-	n/a	26	n/a	n/a	-
	Public Emergency Telephone System	No.	45	22	1	-	1	-	1	n/a	n/a	-	n/a	(21)	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	5	n/a	n/a	-	n/a	5	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Power Systems	No.	-	7	-	-	-	-	-	n/a	n/a	-	n/a	(7)	n/a	n/a	-
	Network		n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	8	n/a	n/a	n/a	n/a	4
	Projects and other		n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(4)
	Non route capex		n/a	n/a	n/a	57	57	n/a	n/a	n/a	n/a	50	n/a	n/a	n/a	n/a	(7)
	Total				8	65	73				-	-	83		-	-	10

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual				2014-15 Network Rail Business Plan						Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Wheeled plant and machinery	High output		n/a	n/a	n/a	20	20	n/a	n/a	n/a	74	74	n/a	n/a	n/a	54	54
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4
	Infrastructure monitoring		n/a	n/a	n/a	3	3	n/a	n/a	n/a	4	4	n/a	n/a	n/a	1	1
	Intervention		n/a	n/a	n/a	6	6	n/a	n/a	n/a	26	26	n/a	n/a	n/a	20	20
	Materials delivery		n/a	n/a	n/a	20	20	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(20)	(20)
	On track plant		n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4	n/a	n/a	n/a	-	-
	Seasonal		n/a	n/a	n/a	2	2	n/a	n/a	n/a	28	28	n/a	n/a	n/a	26	26
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	6	6	n/a	n/a	n/a	6	6
	Road vehicles		n/a	n/a	n/a	9	9	n/a	n/a	n/a	3	3	n/a	n/a	n/a	(6)	(6)
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	64	64			-	149	149			-	85	85
IT	IM delivered renewals		n/a	n/a	n/a	127	127	n/a	n/a	n/a	116	116	n/a	n/a	n/a	(11)	(11)
	Traffic management		n/a	n/a	n/a	16	16	n/a	n/a	n/a	23	23	n/a	n/a	n/a	7	7
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	143	143			-	139	139			-	(4)	(4)
Property	MDUs/offices		n/a	n/a	n/a	11	11	n/a	n/a	n/a	14	14	n/a	n/a	n/a	3	3
	Commercial estate		n/a	n/a	n/a	5	5	n/a	n/a	n/a	6	6	n/a	n/a	n/a	1	1
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	16	16			-	20	20			-	4	4
Other renewals	Asset information strategy		n/a	n/a	n/a	3	3	n/a	n/a	n/a	54	54	n/a	n/a	n/a	51	51
	Intelligent infrastructure		n/a	n/a	n/a	12	12	n/a	n/a	n/a	13	13	n/a	n/a	n/a	1	1
	Faster isolations		n/a	n/a	n/a	9	9	n/a	n/a	n/a	33	33	n/a	n/a	n/a	24	24
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Small plant		n/a	n/a	n/a	4	4	n/a	n/a	n/a	10	10	n/a	n/a	n/a	6	6
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	CP4 Rollover		n/a	n/a	n/a	188	188	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(188)	(188)
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	27	27	n/a	n/a	n/a	27	27
Total					-	216	216			-	137	137			-	(79)	(79)
Total Renewals							2,679					-			-		248

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

In £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (3) Track - Conventional - the reduced outturn in Conventional works is predominantly driven by a continued reduction in activity across complete renewal and re-railing portfolio across a number of routes. A significant amount of volume was lost early on in the year due to re-prioritisation of workbanks and delays caused by the IP Contractual transition.
- (4) Track - High Output - this year the High Output programme has delivered well but still lower than planned. The overrun of the renewal machine overhaul has severely impacted deliverability within East Midlands whilst, in London North West and Western, there have been further access and plant-based shortfalls. Also, within Sussex, the planned High Output programme has been pushed back to future years to facilitate longer-term planning horizons.
- (5) Track - Switches & Crossings - Switches & Crossings shortfall is driven predominantly by shortfalls in London North East, Wales and Wessex. Works in London North East have been severely impacted by access restrictions on the East Coast Main Line and, secondly, due to an over ambitious volume target. The Cardiff Area resignalling scheme in Wales has suffered significant delays, which has had a knock-on effect on the associated Switches & Crossings works and Wessex have had to defer the large Switches & Crossings programme at Twickenham until future years due to access and logistics resourcing issues.
- (6) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (7) Signalling - Full Conventional Resignalling - the workbank is well below plan. In London North West, Wolverhampton Power Signalling Box Resignalling has now been delayed due to the project missing its' planned commissioning date following a delay in completing the necessary development and implementation works due to scheme complexity. This project is now scheduled for completion early in 2015/16 and therefore impact upon asset condition in the interim is limited. The remaining deviation on London North West relates to Crewe Steelworks, which is now scheduled to complete in the latter stages of 2015/16. In Wales, the final phase of the Cardiff Area Resignalling (CASR) scheme was planned to commission (and so the volumes recognised) in the current year. However, due to complexities associated with its delivery and the knock-on effect of delays within the completion of earlier phases of the project this is now scheduled for later in the control period.

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

In £m 2014-15 prices unless stated

- (8) Signalling - Partial Conventional Resignalling - the workbank is below plan due to under delivery in Western as a result of Swindon Area Resignalling project suffering significant programme slippage, which resulted in the scheme missing its planned possession during 2014/15. As a result, Bristol Area Resignalling (BASR), for which the completion of Swindon was facilitative, has also had its first part-commissioning date pushed back to later in the control period.
- (9) Signalling - Targeted Component Renewal - volumes are currently behind plan and from a route perspective this is due to deviations on both Kent and London North East. Works at Hastings (Kent) have been deferred pending proposed enhancements works which may negate the need for any renewals activity as the most efficient whole asset life solution. Belmont and Norwood (London North East) have been have been postponed pending a further specification to deliver the scheme optimally.
- (10) Signalling - Level Crossings - workbank is below plan across most routes. Notable variances include slippage in Wales (Cardiff Area Signalling Renewal) and East Midlands (Syston to Peterborough).
- (11) Structures - Underbridges - workbank is below plan. Both London North East and East Midlands have been significantly inhibited due to the late award of framework contracts to third parties. Whilst this has caused a delay in the current year it is expected that this will be mostly caught up over the remainder of the control period. Securing the appropriate framework contracts allows for the optimal delivery of the structures workbank during the CP5. London North West has deferred Holmes Chapel Viaduct to next year as a result of access issues and integrating planning.
- (12) Structures - Overbridges - workbank is below plan across most routes. In Wales the volume downturn is due to the transfer of Ewenny Bridge and London North East it is the result of the aforementioned late award of framework contracts. The reduced outturn in Sussex is due to unplanned programme slippage on the Station Road Lewes scheme as a result of a development hiatus caused by the introduction of certain framework contracts.
- (13) Structures - Tunnels - The workbank is below plan. This is predominantly due to baseline discrepancies in Kent where the modelled baseline is not reflective of the granular workbank (Polehill tunnel). This scheme has now been rephased to later years as a result of a lost possession in the year. A further reduction in volume within London North West is also forecasted following the deferral of works at Cowburn tunnel.
- (14) Structures - Footbridges - Footbridge volume is less than Network Rail's published CP5 Business Plan predominantly due to Anglia, London North East and East Midlands. Works in Anglia have been re-programmed into later years of the control period due to design issues, East Midlands have been hampered by liability issues and London North East have slipped further work due to the aforementioned late awarding of framework contracts.
- (15) Structures - Coastal & Estuarial Defences - Volumes are greater than Network Rail's published CP5 Business Plan due to additional, emergency activity undertaken in Wales to restore asset condition following storm damage and works associated with Dawlish Walkway in Western.
- (16) Structures - Retaining Walls - Volumes are below plan due to a number of on-going schemes which were forecast for staged completion and, whilst ongoing, are yet to substantially complete and so no volumes have been recognised in line with the policy agreed with the regulator.
- (17) Earthworks - volumes are below plan in the three core areas of embankments, rock cuttings and soil cuttings. The key drivers for these variances are delays associated with the finalisation of framework contracts (as noted above), the impact of resource and deliverability restrictions and the prioritisation of emergency works following the emergence of additional work following the impact of extreme weather in 2013/14 upon the railway infrastructure.
- (18) Earthwork drainage - volumes of pipe works are substantively down from plan across all activity types and the majority of routes excluding London North West. This is reflective of the fact that work of this nature is usually delivered alongside wider earthworks interventions and therefore widespread slippage would be expected given the general trend of under delivery witnessed for Earthworks.
- (19) Buildings - Franchised Stations - within the workbank there has been significant movement across the majority of the portfolio this year with some positive outturn on Buildings (East Croydon & Bedford stations), and Canopies (Taunton and Bath stations). This has been offset by some downward deviations impacting Platforms (Vauxhall and Queens Town Road being deferred due to access restrictions and a change in purchasing strategy resulting in a change in volumes), Train Sheds (York Roof and Darlington have slipped following the reallocation of works) and Footbridges.

Statement 1: Summary regulatory financial performance, Scotland

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	426	424	2	294
Fixed Income	92	91	1	328
Variable Income	71	67	4	53
Other Single Till Income	54	54	-	55
Opex memorandum account	-	-	-	-
Total Income	643	636	7	730
Operating expenditure				
Network operations	45	41	(4)	43
Support costs	44	49	5	59
Traction electricity, industry costs and rates	46	43	(3)	55
Network maintenance	106	111	5	115
Schedule 4	11	21	10	8
Schedule 8	3	-	(3)	2
Total operating expenditure	255	265	10	282
Capital expenditure				
Renewals	270	278	8	312
PR13 enhancement expenditure	315	493	178	21
Non PR13 enhancement expenditure	7	-	(7)	245
Total capital expenditure	592	771	179	578
Other expenditure				
Financing costs	128	161	33	123
Corporation tax (received)/paid	-	-	-	-
Rebates	-	-	-	33
Total other expenditure	128	161	33	156
Total expenditure	975	1,197	222	1,016

Statement 1: Summary regulatory financial performance, Scotland – continued

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was higher than the determination mostly due to higher electricity costs that Network Rail could pass onto operators. This is offset by higher Operating expenditure. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income is in line with the determination as set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – the amounts reported this year are disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as delays in implementing efficiency initiatives. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher electricity costs which are largely recovered from operators through income and higher Business rates which are recovered through the Opex memorandum account. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination and the previous year which is mostly a result investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination from a combination of efficiencies and deferral of renewals activities. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Operating expenditure - Schedule 8 costs are higher than the determination because train performance did not meet the regulator's targets for the first year of the control period. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (13) Capital expenditure - Renewals expenditure is lower than the determination which is due to efficient overspends which is more than offset by re-phasing of activity. These variances are set out in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure is significantly less than the determination due to re-profiling of programme delivery. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments and is lower than the determination largely as a result of lower inflation than the regulator assumed. This is set out in more detail in Statement 4.
- (17) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

Statement 2a: RAB - regulatory financial position, Scotland

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	4,827	4,827	-
Indexation to 2013-14 prices	128	128	-
Opening RAB for the year (2013-14 prices)	4,955	4,955	-
Indexation for the year	98	98	-
Opening RAB (2014-15 prices)	5,053	5,053	-
Adjustments for the actual capital expenditure outturn in			
CP4	(52)	-	(52)
Renewals	258	278	(20)
PR13 enhancements	311	490	(179)
Non-PR13 enhancements	6	-	6
Total enhancements	317	490	(173)
Amortisation	(257)	(257)	-
Adjustments for under-delivery of regulatory outputs	(1)	-	(1)
Closing RAB at 31 March 2015	5,318	5,564	(246)

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	5,053
Adjustments for the actual capital expenditure outturn in	
CP4	(52)
Renewals	258
PR13 enhancements	311
Non-PR13 enhancements	6
Total enhancements	317
Amortisation	(257)
Adjustments for under-delivery of regulatory outputs	(1)
Closing RAB	5,318

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

in £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Lower project expenditure – during the final years of control period 4 the level of capital expenditure undertaken by Network Rail was lower than the assumption in the regulator's determination. This resulted in lower expenditure being logged up to the RAB.
 - b. IOPI adjustment (RAB increase £6m) – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was a combination of re-profiling activity to future years partly offset by some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was lower than the regulator assumed. This was due to a deferral of enhancement activity. The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year (PPM) the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position. The amount recognised in the year relates to the estimated impact of missed enhancement milestones on the Rutherglen and Coatbridge element of the Rolling programme of electrification. This is an assessment based on information available but the regulator retains discretion over the final level of adjustment to be made.

Statement 2b: RAB - reconciliation of expenditure, Scotland

in £m 2014-15 prices unless stated

Total as at 31/03/15

Renewals

Renewals per the PR13 determination 278

Adjustments to the PR13 determination	
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	7
Capitalised financing on CP4 deferrals	-
Other adjustments	-
Capitalised financing on other adjustments	-

Adjusted PR13 determination (renewals) 285

Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(65)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)
Adjustments for efficient overspend	44
Capitalised financing on efficient overspend	1
25% retention of efficient overspend	(11)
Capitalised financing on efficient overspend 25% retention	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing on efficient underspend 25% retention	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments for efficient overspend through spend to save framework	6
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other adjustments	-
Capitalised financing on other adjustments	-

Total Renewals (added to the RAB - see Statement 2a) 258

Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	-
Adjustment for retention of efficient overspend (including spend to save adjustment)	12
Adjustment for retention of efficient underspend	-
Other adjustments	-

Total actual renewals expenditure (see statement 9) 270

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

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	490
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	2
Capitalised financing on CP4 deferrals	-
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	-
Capitalised financing on adjustments to DfT funding	-
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (enhancements)	492
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(177)
Capitalised financing on acceleration / (deferrals) of expenditure	(4)
Adjustments for efficient overspend	-
Capitalised financing on efficient overspend	-
25% retention of efficient overspend	-
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
75% return of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-
Capitalised financing relating to projects with tailored protocols or fixed price	-
Adjustments for efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	311
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	6
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	-
Capitalised financing on non-PR13 enhancements expenditure	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	-
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6
Total enhancements (added to the RAB - see statement 2a)	317
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	4
Adjustment for retention of efficient overspend (including spend to save adjustment)	-
Other adjustments (including discretionary investment)	1
Adjustment for retention of efficient underspend	-
Non-PR13 enhancement expenditure	-
Third party funded schemes	6
Other adjustments	-
Total actual enhancement expenditure (see statement 3)	328

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

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted.
- (10) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (11) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition.

Statement 3: Analysis of enhancement capital expenditure, Scotland

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Funds			
Scottish stations fund	3	8	5
Scottish strategic rail freight investment fund	3	6	3
Scottish network improvement fund	1	14	13
Future network development fund	-	2	2
Level crossings safety	2	3	1
Total funds	9	33	24
Committed projects			
Edinburgh Glasgow Improvements Programme (EGIP)			
Electrification of Springburn to Cumbernauld	9	16	7
Edinburgh Glasgow Improvements Programme (EGIP)			
Edinburgh to Glasgow Electrification	54	72	18
Edinburgh Glasgow Improvements Programme (EGIP)			
Edinburgh Gateway Station	7	39	32
Edinburgh Glasgow Improvements Programme (EGIP)			
Infrastructure Projects	20	72	52
Border Railway Project	162	159	(3)
Total committed projects	252	358	106
Named Schemes			
Scotland			
Aberdeen to Inverness journey time improvements and other enhancements	6	39	33
Rolling programme of electrification (Scotland)	29	12	(17)
Carstairs journey time improvements	2	-	(2)
Highland main line journey time improvements (phase 2)	1	33	32
Motherwell area stabling	-	2	2
Motherwell resignalling enhancements	-	1	1
Edinburgh South Suburban Electrification	-	-	-
Total Scotland:	38	87	49
Other projects			
Seven day railway projects	-	5	5
ERTMS Cab fitment	-	-	-
R&D allowance	-	1	1
Income generating property schemes	16	5	(11)
Other income generating investment framework schemes	-	4	-
Total other projects	16	15	(1)
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	315	493	178
B) Investments not included in PR13			
Government sponsored schemes			
Other government sponsored schemes	6	-	(6)
Total Government sponsored schemes	6	-	(6)
Network Rail spend to save schemes	-	-	-
Other spend to save schemes	-	-	-
Total Network Rail spend to save schemes	-	-	-
Total Schemes promoted by third parties	-	-	-
Discretionary Investment	1	-	(1)
Total non PR13 enhancement expenditure	7	-	(7)
Total Network Rail funded enhancements (see Statement 1)	322	493	171
Third Party PAYG	6	-	(6)
Total enhancements (see statement 2b)	328	493	165

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

in £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from Government for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £322m (as shown in Statement 1). This comprises the total enhancement figure in the table above £328m less the PAYG schemes funded by third parties (£6m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) Scottish stations fund – this fund will be invested in improving the public's access to railway services. Whilst programme delivery was slower than the regulator assumed it was higher than planned in Network Rail's internal targets as work was accelerated into 2014/15. Expenditure in the control period is not expected to exceed the regulatory funding available.
 - (b) Scottish network improvement fund - The purpose of this fund is to deliver, or support the delivery of, interventions on the Scottish network which support the development of the capacity and capability of general infrastructure and network communications systems. Expenditure in the year was lower than the regulator assumed as work was re-profiled into later years.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
 - (a) Edinburgh Glasgow Improvements Programme - The key outputs of EGIP include reductions in journey times and increased passenger capacity on the main Edinburgh to Glasgow route, giving benefits to passengers, contributing to the Scottish Government's goals of improving economic connectivity and reducing road congestion as well as reducing environmental damage. Network Rail's internal targets assumed a different profile of programme deliver to that in the PR13, so the large underspend compared to the regulator's allowance in the year was expected.

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

in £m 2014-15 prices unless stated

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

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

in £m 2014-15 prices unless stated

- (c) PAYGO – the year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year. The main programme included in this category this year (accounting for over half of the expenditure) is the Carfin-Holytown Bypass Dualling project.

Statement 4: Net debt and financial ratios, Scotland

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	2,965	3,080	115
Income			
Grant income	(426)	(424)	2
Fixed charges	(92)	(91)	1
Variable charges	(71)	(67)	4
Other single till income	(54)	(54)	-
Total income	(643)	(636)	7
Expenditure			
Network operations	45	41	(4)
Support costs	44	49	5
Traction electricity, industry costs and rates	46	43	(3)
Network maintenance	106	111	5
Schedule 4	11	21	10
Schedule 8	3	-	(3)
Renewals	270	278	8
PR13 enhancement	315	490	175
Non-PR13 enhancement	7	-	(7)
Total expenditure	847	1,033	186
Financing			
Interest expenditure on nominal debt - FIM covered	46	52	6
Interest expenditure on index linked debt - FIM covered	22	24	2
Expenditure on the FIM	33	37	4
Interest expenditure on government borrowing	8	-	(8)
Interest on cash balances held by Network Rail	(1)	(1)	-
Total interest costs	108	112	4
Accretion on index linked debt - FIM covered	20	49	29
Total financing costs	128	161	33
Corporation tax	-	-	-
Other	39	-	(39)
Movement in net debt	371	558	187
Closing net debt	3,336	3,638	302

D) Financial indicators

	2014-15 Actual	PR13
Adjusted interest cover ratio (AICR)	1.23	1.02
FFO/interest	3.61	3.31
Net debt/RAB (gearing)	62.7%	65.4%
FFO/debt	11.7%	10.2%
RCF/debt	8.5%	7.1%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.2%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

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

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Debt attributable to Scotland has increased by £0.4bn during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is £0.3bn lower than the regulator assumed. This is mostly due to lower than expected enhancement investment, lower than assumed opening net debt in and lower interest cost.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through Government. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.
 - b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed. The rates for this type of debt have been generally in line with expectation but, as discussed above, Network Rail has reduced the proportion of index-linked debt held.

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

in £m nominal unless otherwise stated

- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(14) Analysis of Network Rail's net debt – following the aforementioned changes in government classification Network Rail can only generate new debt by borrowing from DfT rather than through market issuances. Consequently, the proportion of market issued debt has decreased noticeably in the year as 17 per cent of the value of gross debt at the year end is now directly from government.

(15) 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 April 2014.

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

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). AICR ratio was favourable to the regulator's assumption as a result of higher income, lower operating costs and lower cash interest expenses than the regulator assumed.

(17) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is lower than the regulator assumed. This was due to: a lower than expected opening net debt than the regulator expected, substantially lower enhancement expenditure than the regulator assumed (this results in a lower absolute value of both the debt and the RAB thus making the ratio lower), higher trading profit and lower interest costs (which gives a lower overall debt). Under the terms of its regulatory licence Network Rail must inform the regulator if it this ratio exceeds 75 per cent, setting out the steps it intends to take to reduce the amount below that limit, or if it expects to exceed 75 per cent in the forthcoming year (Licence Condition 3 – Financial Indebtedness).

in £m 2014-15 prices unless stated

[illegible]

Statement 5a: Total financial performance, Scotland - continued

in £m 2014-15 prices unless stated

Breakdown of variance not included in total financial performance - Variable income:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustments for external traction electricity	(17)	(15)	(2)	(17)	(15)	- (2)
Total variance not included in total financial performance:	(17)	(15)	(2)	(17)	(15)	- (2)

Breakdown of variance not included in total financial performance - Support costs:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Release of CP4 long distance financial penalty provision	2	-	2	2	-	- 2
Total variance not included in total financial performance:	2	-	2	2	-	- 2

Breakdown of variance not included in total financial performance - Traction electricity:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustments for external traction electricity	17	15	2	17	15	- 2
Total variance not included in total financial performance:	17	15	2	17	15	- 2

Statement 5a: Total financial performance, Scotland – continued

in £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Borders) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – most of the variance that has arisen is due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for this element of the variance.
- (3) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (5) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate. The determination assumed that Network Rail would exit the control period with a lower cost base. However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a higher cost base than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely.

Statement 5a: Total financial performance, Scotland – continued

in £m 2014-15 prices unless stated

- (6) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (when this will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the provision. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (7) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police costs compared to the assumption in the determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period. Amounts in the variance not included in total financial performance relate to amounts Network Rail expect to recover through the Opex memorandum account (which is set out in more detail in Statement 10).
- (8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (9) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on reactive maintenance in the opening year of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved. Underlying Network maintenance costs are higher than the determination. The main contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs.
- (10) Schedule 4 costs – costs were lower than the regulator assumed. However, not all of these savings have been classed as FPM. Schedule 4 possessions costs are incurred as a result of the level of renewals work undertaken. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to Schedule 4 so that a fair assessment of financial performance can be made.
- (11) Schedule 8 costs – the additional cost compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. Actual PPM of 91.4 per cent was achieved in the final year compared to Network Rail's trajectory which underpinned its Strategic Business Plan of 92.0 per cent. To bridge this gap in a single year was always going to be challenging. Also, additional traffic during the Glasgow Commonwealth Games put extra strain on the network and adversely affected PPM in Scotland in 2014/15.
- (12) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (13) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).

Statement 5a: Total financial performance, Scotland – continued

in £m 2014-15 prices unless stated

- (14) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (15) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates but also to lower average debt levels as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality targets for Scotland were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Network Rail also faces a reduction for these missed outputs. In line with the regulator's guidelines, £0.25m has been included for every 0.1 per cent that Scotland PPM target of 92.0 per cent was missed by.
- (3) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. The amount in the year relates to the Rutherglen and Coatbridge element of the Rolling programme of electrification.

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

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	4	32	(28)	(7)		(7)	-	-
Signalling	38	42	(4)	(1)		(2)	1	-
Civils	(16)	(12)	(4)	(1)		3	(4)	-
Buildings	1	1	-	-		-	-	-
Electrical power and fixed plant	5	9	(4)	(1)		-	(1)	-
Telecoms	9	9	-	-		-	-	-
Wheeled plant and machinery	9	9	-	-		-	-	-
IT	(7)	(7)	-	-		-	-	-
Property	(7)	(3)	(4)	(1)		-	(1)	-
Other renewals	(28)	(28)	-	-		-	-	-
Total	8	52	(44)	(11)		(6)	(5)	-

Where:

$$C = A - B$$

$$D = C \times 25\%$$

And:

$$D = E + F + G$$

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

in £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable financial underperformance in the current year. This was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Also, although the exit rate was adverse to the determination, the exit rate benefitted from some non-recurring items in 2013/14. The underlying exit rate position was even further from the regulator's position which necessitated higher costs in Network Rail's CP5 plan. During the year, the route was slightly favourable on track costs on a like-for-like basis compared to Network Rail's internal plan, largely due to favourable contract settlements.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes. Additional scope and cost for Motherwell North, Pomadie to Rutherglen and Inverness. Signalling FPM has also been impacted by higher NOS (Network Operating Strategy) costs. The delay in completing these projects has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned.
- (4) Civils – financial underperformance in the year due to slight cost increases across the portfolio, including allocation of overspends on central projects allocated to the route. Costs per project have been lower than expected mainly due to a greater proportion of works being delivered in-house but this has been more than offset by additional earthworks scope required to maintain an appropriate level of asset quality.
- (5) Electrical power and fixed plant – financial underperformance due to additional investment in energy efficiency programme, which is centrally-managed. Network Rail is planning to invest more than the determination allowances in this area.
- (6) Property – financial underperformance has been recognised this year in relation to the fitting out the new route HQ office in Glasgow. The Scotland route HQ has had to relocate following structural issues in the former premises which were identified after the determination was finalised.

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

in £m 2014-15 prices unless stated

	Variance to adjusted PR13	Variance due to ECAM adjustment	2014-15 Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Edinburgh Glasgow Improvements Programme (EGIP)	7	-	7	-	-	-
Electrification of Springburn to Cumbernauld						
Rolling programme of electrification (Scotland)	(17)	3	(14)	-	-	-
Other Enhancements	181	-	181	-	-	-
Total	171	3	174	-	-	-

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

in £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) No financial under/ out performance has been recognised in Scotland this year.

in £m 2014-15 prices unless stated

Where: $C = B - A$

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

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

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

in £m 2014-15 prices unless stated

Notes:

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

Statement 6a: Analysis of income, Scotland

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	426	424	2	294
Franchised track access income				
Fixed charges	92	91	1	328
Variable charges				
Variable usage charge	14	13	1	14
Traction electricity charges	17	15	2	22
Electrification asset usage charge	1	1	-	1
Capacity charge	19	18	1	6
Station usage charge	-	-	-	-
Schedule 4 net income	20	20	-	10
Schedule 8 net income	-	-	-	-
Total Variable charges income	71	67	4	53
Total franchised track access income	163	158	5	381
Total franchised track access and grant income	589	582	7	675
Other single till income				
Property income	16	17	(1)	13
Freight income	8	9	(1)	8
Open access income	-	-	-	-
Stations income	21	20	1	27
Facility and financing charges	1	1	-	1
Depots Income	8	7	1	6
Other income	-	-	-	-
Total other single till income	54	54	-	55
Total income	643	636	7	730

Statement 6a: Analysis of income, Scotland – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under regulatory efficiency sharing regimes (Efficiency Benefit Sharing Mechanism (EBSM) in control period 4 and Route-level Efficiency Benefit Sharing (REBS) in control period 5 – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Transport Scotland which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is more than offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Fixed charges – fixed charge income was slightly higher than the determination. This is partly due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual fixed charge payments made by operators which are calculated using the November 2013 RPI in line with the track access contractual arrangements. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Fixed charges cannot be compared to the prior year figure in a meaningful way. The amount of fixed charge income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The decrease in fixed charges compared to 2013/14 is partly offset by higher grant income received from government. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (4) Variable usage charge – income was slightly favourable to the determination and in line with the previous year. Extra income was largely generated from additional train paths on the network provided during the Glasgow Commonwealth Games. Whilst this generated increased services for the travelling public the additional traffic manifested itself in worse train performance and so higher Schedule 8 costs (refer to Statement 10).

Statement 6a: Analysis of income, Scotland – continued

in £m 2014-15 prices unless stated

- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is higher than the determination due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. However this is balanced by an overspend on electricity costs (as shown in Statement 7a). Traction electricity charges are slightly higher than the previous year.
- (6) Capacity charge - this is higher than the determination because there has been an increase in train services in the year compared to the regulator's assumption. Extra income was largely generated from additional train paths on the network provided during the Glasgow Commonwealth Games. Whilst this generated increased services for the travelling public the additional traffic manifested itself in worse train performance and so higher Schedule 8 costs (refer to Statement 10). Increased capacity is also reflected in the amounts Network Rail have earned under the volume incentive (refer to Statement 10). The details for this can be found in Statement 12. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore this year's figure cannot be compared to 2013/14 in a meaningful way.
- (7) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is significantly higher than the 2013/14 value. This is due to changes in the Schedule 4 compensation rates in control period 5 compared to control period 4, which also results in changes in the access charge supplement payable by operators.
- (8) Stations income – whilst this is lower than the 2013/14 comparative, this was expected in the regulator's determination and income is slightly favourable to ORR's assumption. The largest variance compared to the prior year is for Long-term charges levied on franchised stations. This charge is designed to recover the long-term costs of renewing, operating and maintaining the stations. As part of the PR13 process, the regulator updated its' view on the appropriate charges in Scotland, resulting in lower income for Network Rail in CP5 than CP4.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property Income				
Property rental	14	17	(3)	13
Property sales	2	2	-	-
Adjustment for commercial opex	-	(2)	2	-
Total property income	16	17	(1)	13
Freight income				
Freight variable usage charge	6	6	-	6
Freight traction electricity charges	-	1	(1)	1
Freight electrification asset usage charge	-	-	-	-
Freight capacity charge	-	-	-	-
Freight only line charge	1	1	-	1
Freight specific charge	-	-	-	-
Freight other income	-	-	-	-
Freight coal spillage charge	1	1	-	-
Total freight income	8	9	(1)	8
Open access income				
Variable usage charge income	-	-	-	-
Open access capacity charge	-	-	-	-
Open access traction electricity charges	-	-	-	-
Fixed contractual contribution	-	-	-	-
Open access other income	-	-	-	-
Total open access income	-	-	-	-
Stations income				
Managed stations income				
Long term charge	3	2	1	3
Qualifying expenditure	4	5	(1)	5
Total managed stations income	7	7	-	8
Franchised stations income				
Long term charge	12	11	1	16
Stations lease income	2	2	-	3
Total franchised stations income	14	13	1	19
Total stations income	21	20	1	27
Facility and financing charges				
Facility charges	1	1	-	1
Crossrail finance charge	-	-	-	-
Welsh Valleys finance charge	-	-	-	-
Total facility and financing charges	1	1	-	1
Depots income	8	7	1	6
Other	-	-	-	-
Total other single till income	54	54	-	55

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

in £m 2014-15 prices unless stated

Notes:

- (1) Single till income represents revenue earned mainly from property but also from other areas such as freight. Amounts earned under single till are used by the regulator to determine access charges and government grants. Therefore, the more that Network Rail can generate through single till income, ceteris paribus, the lower the costs to operators and government.
- (2) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions. This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures (refer to Statement 10). The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.
- (3) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) Property rental – the variance to the determination should be viewed in conjunction with the Adjustment for commercial opex heading. When considered together the net income generated is largely in line with the regulatory expectation.
- (2) Franchised stations – long term charge – income is in line with the regulatory target but higher than the previous year due to changes in the regulatory regime this control period.
- (3) Franchised stations – Qualifying expenditure – whilst this is lower than the 2013/14 comparative, this was expected in the regulator's determination and income is slightly favourable to ORR's assumption. These charges are designed to recover the long-term costs of renewing, operating and maintaining the stations. As part of the PR13 process, the regulator updated its' view on the appropriate charges in Scotland, resulting in lower income for Network Rail in CP5 than CP4.

Statement 6c: Analysis of income by operator, Scotland

in £m 2014-15 prices unless stated

	2014-15
Cross Country	
Variable Usage Charges	0.8
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	1.6
Fixed Charges	-
Station Facility Charge	-
Station Long Term Charges	0.2
Station QX	0.3
Other Charges	-
Total income	2.9

	2014-15
East Coast Main Line Rail [4]	
Variable Usage Charges	2.0
Traction Electricity Charges	-
Electrification Asset Usage Charges	0.1
Capacity Charges	3.2
Fixed Charges	-
Station Facility Charge	-
Station Long Term Charges	0.3
Station QX	0.5
Other Charges	1.3
Total income	7.4

	2014-15
Virgin East Coast [4]	
Variable Usage Charges	0.2
Traction Electricity Charges	-
Electrification Asset Usage Charges	0.0
Capacity Charges	0.4
Fixed Charges	-
Station Facility Charge	-
Station Long Term Charges	0.0
Station QX	0.0
Other Charges	0.1
Total income	0.7

	2014-15
Northern	
Variable Usage Charges	0.0
Traction Electricity Charges	-
Electrification Asset Usage Charges	-
Capacity Charges	0.0
Fixed Charges	-
Station Facility Charge	-
Station Long Term Charges	-
Station QX	-
Other Charges	-
Total income	0.0

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

in £m 2014-15 prices unless stated

	2014-15
Scotrail	
Variable Usage Charges	7.8
Traction Electricity Charges	11.8
Electrification Asset Usage Charges	0.8
Capacity Charges	9.4
Fixed Charges	92.4
Station Facility Charge	0.6
Station Long Term Charges	15.8
Station QX	3.5
Other Charges	6.3
Total income	148.4

	2014-15
Transpennine	
Variable Usage Charges	0.4
Traction Electricity Charges	-
Electrification Asset Usage Charges	0.1
Capacity Charges	0.4
Fixed Charges	-
Station Facility Charge	-
Station Long Term Charges	0.0
Station QX	0.1
Other Charges	-
Total income	1.0

	2014-15
Virgin West Coast	
Variable Usage Charges	2.8
Traction Electricity Charges	-
Electrification Asset Usage Charges	0.3
Capacity Charges	4.2
Fixed Charges	-
Station Facility Charge	-
Station Long Term Charges	0.3
Station QX	0.4
Other Charges	-
Total income	8.0

	2014-15
Consolidated Freight Operating Companies	
Variable Usage Charges	6.1
Traction Electricity Charges	-
Electrification Asset Usage Charges	0.0
Capacity Charges	0.3
Fixed Charges	-
Station Facility Charge	-
Station Long Term Charges	-
Station QX	-
Other Charges	1.7
Total Turnover	8.1

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

in £m 2014-15 prices unless stated

Notes:

- (1) Amounts reported for each operator in this Statement may not sum to the totals reported in Statements 6a or 6b due to amounts not directly attributable to TOCs/ FOCs and central adjustments.
- (2) The amount reported in the tables do not include any payments made to operators under the REBS or EBSM mechanisms.
- (3) No PR13 comparison has been provided by the ORR for this schedule.
- (4) Virgin East Coast replaced East Coast Main Line Rail during the year as the main operator on the East Coast Main Line. Income for both customers is included in this statement in separate tables.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	23	23	-	23
Signalling shift managers	2	1	(1)	2
Local operations managers	2	1	(1)	1
Controllers	2	2	-	2
Electrical control room operators	1	1	-	1
Total signaller expenditure	30	28	(2)	29
Non-signaller expenditure				
Mobile operations managers	3	2	(1)	2
Managed stations	5	4	(1)	4
Performance	4	1	(3)	4
Customer relationship executives	1	1	-	-
Route enhancement managers	-	-	-	-
Weather	-	1	1	-
Other	-	3	3	1
Operations delivery	(1)	-	1	(1)
HQ - Operations services	-	-	-	-
HQ - Performance and planning	-	-	-	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	4	3	(1)	4
Other operating income	(1)	(2)	(1)	-
Total non-signaller expenditure	15	13	(2)	14
Total network operations expenditure	45	41	(4)	43
Support costs				
Core support costs				
Human resources	3	6	3	6
Information management	6	6	-	6
Government and corporate affairs	1	2	1	2
Group strategy	1	1	-	1
Finance	2	3	1	2
Business services	1	1	-	1
Accommodation	9	7	(2)	4
Utilities	5	4	(1)	5
Insurance	5	5	-	4
Legal and inquiry	1	1	-	1
Safety and sustainable development	2	1	(1)	1
Strategic sourcing	1	1	-	1
Business change	-	-	-	1
Other corporate functions	6	-	(6)	3
Core support costs	43	38	(5)	38
Other support costs				
Asset management services	4	6	2	5
Network Rail telecoms	5	5	-	5
National delivery service	-	1	1	-
Infrastructure Projects	(2)	-	2	(6)
Commercial property	-	-	-	1
Group costs	(6)	(1)	5	16
Total other support costs	1	11	10	21
Total support costs	44	49	5	59
Traction electricity, industry costs and rates				
Traction electricity	18	17	(1)	24
Business rates	16	16	-	20
British transport police costs	9	7	(2)	8
RSSB costs	1	1	-	1
ORR licence fee and railway safety levy	2	2	-	2
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
Total traction electricity, industry costs and rates	46	43	(3)	55
Total network operations expenditure, support costs, traction electricity, industry costs and rates	135	133	(2)	157

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs of £2m in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are 10 per cent higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 with Network Operations costs of £42m (2014/15 prices). However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, there have been delays implementing efficiency strategies in the current year. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that ceteris paribus, costs would exceed the regulatory allowance for 2014/15. Costs are marginally higher than the previous year, mostly as a result of pay awards being higher than inflation.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (5) Human Resources - costs are noticeably lower than the determination and the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Further breakdown of HR costs can be found in Statement 7b.
- (6) Finance – costs were slightly lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in 2013/14 year-on-year costs are consistent.
- (7) Accommodation – these property expenses were slightly lower than the determination and in line with last year.

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

in £m 2014-15 prices unless stated

- (8) Insurance - costs are in line with the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. In 2014/15 there were relatively few significant events which resulted in higher incentive regime costs which would have been covered through the insurance arrangements in place in CP4. Costs are higher than last year due to these increased premiums in the market place. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive given the perceived risk associated with Network Rail by insurers.
- (9) Safety and sustainable development - Costs are slightly than the determination and the previous financial year. This is due to the company focussing even more on safety by investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the prior year and in the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are funded by savings made in these areas.
- (10) Other corporate functions – costs are higher than the prior year and mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or did not expect the same level of organisational requirement. The savings compared to the PR13 in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b.
- (11) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination and in 2013/14 within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.
- (12) National Delivery Services – costs are in line with the previous year. National Delivery Services incurs limited Support costs as almost all of its activities are connected to the procurement and distribution of materials for maintenance activities.
- (13) Infrastructure Projects - most of the costs incurred by projects are capitalised and therefore, there is usually minimal net costs within Infrastructure Projects. The amount in Infrastructure Projects for the current year relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (14) Commercial Property – costs are in line with the regulatory assumption but lower than last year. As noted in last year's Regulatory financial statements the 2013/14 costs include some one-off costs relating to commercial claims. Excluding the impact of these costs the expense in 2013/14 is more in line with the 2014/15 costs.

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

in £m 2014-15 prices unless stated

- (15) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (16) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is lower than the prior year mostly due to lower Traction electricity costs as the regulator has refined its assumptions for how much of Network Rail's income and costs arising from Traction electricity should be attributed to different routes within Network Rail. Costs are higher than the determination due to different assumptions on Traction electricity and Business rates.
- (17) Traction electricity – costs are higher than the determination but lower than the prior year. Network Rail has limited ability to influence traction electricity costs which are driven by the prevailing market rates of these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in the financial year are slightly higher than the determination due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) is also higher than the Regulator assumed. Costs are lower than the prior year as the regulator has refined its assumptions for how much of Network Rail's income and costs arising from Traction electricity should be attributed to different routes within Network Rail.
- (18) Business rates – costs are in line with the previous year but higher than the determination assumed. The ORR assumed a different allocation of Business rates to the Scotland route than is the case. Business rates are allocated to different rates in line with individual property location and so provide a more accurate basis than the regulator's assumptions. Network Rail expects to be compensated for these additional costs in Scotland through the Opex memorandum account mechanism (refer to Statement 10).
- (19) British Transport Police (BTP) costs - costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.

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

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	25	24
Operations and customer services non-signalling	-	-
MOMS	3	3
Control	4	3
Planning & Performance Staff Costs	2	5
Managed Stations Staff Costs	1	2
Operations Management Staff Costs	3	2
Other	5	6
Total operations & customer services costs	43	45
Total Network Operations	43	45
Support		
Human resources		
Functional support	3	1
Training (inc Westwood)	2	1
Graduates	-	-
Apprenticeships	1	1
Other	-	-
Total human resources	6	3
Information management		
Support	1	-
Projects	-	-
Licences	-	-
Business operations	5	6
Other	-	-
Total information management	6	6
Finance	2	2
Business Change	1	-
Contracts & procurement	1	-
Strategic Sourcing (National Supply Chain)	-	1
Planning & development	1	1
Safety & compliance	1	-
Other corporate services	5	2
Commercial property	6	9
Infrastructure Projects	(6)	(2)
Route Services	2	3
Asset management & Engineering/Asset heads	14	-
National delivery service	-	-
Utilities	-	5
Network Rail telecoms	-	5
Digital Railway	-	2
Safety Technical & Engineering	-	4
Government & Corporate Affairs	-	1
Business Services	-	1
Route Asset Management	-	1
Legal and inquiry	-	1
Group/central		
Pensions	-	-
Insurance	4	5
Redundancy/reorganisation costs	7	2
Staff incentives/Bonus Reduction	1	(2)
Accommodation & Support Recharges	-	(3)
ORR financial penalty	8	(2)
Other	-	(1)
Total group/central costs	20	(1)
Total support	59	44
Total network operations and support costs	102	89

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs of £2m in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these activities but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (4) Human Resources - costs are noticeably lower than the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses.
- (5) Contracts & procurement – activities previously categories as Contracts & procurement are now included within Strategic sourcing (National Supply Chain). Consequently, there are no Contracts & procurement costs reported for 2014/15.
- (6) Strategic sourcing (National Supply Chain) - activities previously categories as Contracts & procurement are now included within Strategic sourcing (National Supply Chain). Consequently, there are no Strategic sourcing (National Supply Chain) costs reported for 2013/14.
- (7) Safety & compliance – the costs are noticeably lower than last year. The activities previously undertaken by this department are now incorporated into the operations of the Safety Technical & Engineering team.
- (8) Other corporate services - in 2013/14 this included Government & Corporate Affairs, Business Services and Legal. These have been split out this year to provide more information of Network Rail's costs.
- (9) Property – costs are lower than the previous year. As noted in last year's Regulatory financial statements the 2013/14 costs were unusually high due to one-off amounts included for commercial claims. With no such items this year, the 2014/15 costs are more in line with expectation.
- (10) Infrastructure Projects - most of the costs incurred by projects are capitalised and therefore, there is usually minimal net costs within Infrastructure Projects. In 2013/14 inter-departmental recharges were included as a credit in Infrastructure Projects. This year, to be consistent with the presentation in the regulator's PR13, these recharges are included within Group costs (see below). The amount in Infrastructure Projects for the current year relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (11) Route services – these costs have increased since 2013/14. As noted above, certain activities have transferred from Human Resources to the routes which has resulted in savings in Human Resources costs but higher Route services costs.

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

in £m 2014-15 prices unless stated

- (12) Asset management & engineering/ Asset heads – in last year's Regulatory financial statements this cost category included a number of activities. To improve visibility and clarity for costs in control period 5 these activities are now shown separately (Utilities, Telecoms, Digital Railway, certain elements of Safety, technical & engineering). On a like for like basis the activities in the category previously termed Asset management & engineering/ Asset heads are in line with the previous year.
- (13) Utilities - in the previous control period this was included within Asset management & engineering/ Asset heads but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are in line with the previous year.
- (14) Telecoms - in the previous control period this was included within Asset management & engineering/ Asset heads but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are slightly higher than the previous year which includes the extra costs of FTN/ GSM-R (including FTNx) activity.
- (15) Digital railway - in the previous control period the activities of this function were included within Asset management & engineering/ Asset heads. To improve understanding in control period 5 this is now shown as a separate category to reflect the organisational structure of Network Rail. On a like-for-like basis costs in this area are broadly consistent with the previous year.
- (16) Safety, technical & engineering – in the previous control period the activities of this function were divided between Safety & compliance and Asset management & engineering/ Asset heads. To improve understanding in control period 5 this is now shown as a separate category to reflect the organisational structure of Network Rail. On a like-for-like basis costs in this area are broadly consistent with the previous year.
- (17) Government & corporate affairs - in the previous control period this was included within Other corporate services but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis costs are in line with the previous year.
- (18) Business Services – in the previous control period this was included within Other corporate services but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are in line with the previous year.
- (19) Route Asset Management – costs last year were all recovered or off-charged to other activities. The increase in cost this year reflects the increase in the size and scope of route asset management. As part of the move towards devolved, independent routes to optimise decision making and generate operational improvements additional expertise and knowledge in this area is required for each of the routes.
- (20) Legal and inquiry – in the previous control period this was included within Other corporate services but is shown separately for the first time in these Regulatory financial statements. On a like-for-like basis these costs are in line with 2013/14.
- (21) Group – Insurance - costs are higher than the previous year. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the cost of insurance premiums demanded by the market is now higher. Severe weather events in control period 4 had a noticeable impact on the railway infrastructure leading to higher costs and increased risk for third parties offering insurance to Network Rail. Whilst Network Rail has sought to reduce Support costs by taking out less insurance cover there is still an amount it is required to hold (for example, to cover against personal injury, vehicles or terrorism events) which are now more expensive given the perceived risk associated with Network Rail in insurance markets.
- (22) Group – redundancy/ reorganisation costs – in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there was also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (23) Group – staff incentives - this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans.

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

in £m 2014-15 prices unless stated

- (24) Group – Accommodation & Support recharges – the credit in the current year relates to recharges made to the Infrastructure Projects department of Network Rail to reflect the costs incurred by this area (such as accommodation, use of IT equipment etc). These costs are credited in Support costs and included in the project costs in renewals and enhancements as these are specifically connected with the delivery of capital expenditure which is in line with the guidance in International Accounting Standards IAS 16 Property, Plant & Equipment. The amounts recharged in 2014/15 are in line with the amounts included in the regulator's PR13 settlement. Last year these costs have been reported under the Infrastructure Projects heading.
- (25) Group - in the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5.

Statement 7c: Insurance reconciliation, Scotland

in £m 2014-15 prices unless stated

A) Reconciliation of costs	Market based insurance			Self insurance Claims recognised by the captive				Total
Risk	Underlying cost	Claims paid	Market premiums A	Underlying cost	by the captive B	Captive premiums	Other C	Total cost D
Property	-	-	-	1	-	1	-	-
Business interruption	-	-	-	6	4	1	-	4
Terrorism	-	-	1	-	-	-	-	1
Employer's liability	-	-	-	-	-	1	-	-
Public & products liability	-	-	1	1	-	1	-	1
Motor	-	-	-	-	-	-	-	-
Construction all risks	1	-	-	-	-	-	-	-
Other cover	-	-	1	-	-	-	-	1
Investment return	-	-	-	-	-	-	-	-
Total	1	-	3	8	4	4	-	7
Total insurance recognised in:								
Schedule 4 & 8	-	-	-	6	4	1	-	4
Operations	-	-	-	-	-	-	-	-
Support costs	1	-	3	2	-	-	-	3
Maintenance	-	-	-	-	-	-	-	-
Renewals	-	-	-	-	-	-	-	-
Enhancements	-	-	-	-	-	-	-	-
Total	1	-	3	8	4	1	-	7

Statement 7c: Insurance reconciliation, Scotland – continued

in £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) The outstanding value on the loan from Network Rail Infrastructure Limited to Network Rail Insurance limited is £nil.

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

in £m 2014-15 prices unless stated

	2014-15				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Network operations												
Signaller expenditure												
Signallers and level crossing keepers	23	-	-	23	23	-	-	23	-	-	-	-
Signalling shift managers	2	-	-	2	1	-	-	1	(1)	-	-	(1)
Local operations managers	2	-	-	2	1	-	-	1	(1)	-	-	(1)
Controllers	3	(1)	-	2	2	-	-	2	(1)	1	-	-
Electrical control room operators	1	-	-	1	1	-	-	1	-	-	-	-
Total signaller expenditure	31	(1)	-	30	28	-	-	28	(3)	1	-	(2)
Non-signaller expenditure												
Mobile operations managers	3	-	-	3	2	-	-	2	(1)	-	-	(1)
Managed stations	6	(1)	-	5	4	-	-	4	(2)	1	-	(1)
Performance	4	-	-	4	1	-	-	1	(3)	-	-	(3)
Customer relationship executives	2	(1)	-	1	1	-	-	1	(1)	1	-	-
Route enhancement managers	-	-	-	-	-	-	-	-	-	-	-	-
Weather	-	-	-	-	1	-	-	1	1	-	-	1
Other	-	-	-	-	3	-	-	3	3	-	-	3
Operations delivery	6	(7)	-	(1)	-	-	-	-	(6)	7	-	1
HQ - Operations services	-	-	-	-	-	-	-	-	-	-	-	-
HQ - Performance and planning	-	-	-	-	-	-	-	-	-	-	-	-
HQ - Stations and customer services	-	-	-	-	-	-	-	-	-	-	-	-
HQ - Other	4	-	-	4	3	-	-	3	(1)	-	-	(1)
Other operating income	-	-	(1)	(1)	-	-	(2)	(2)	-	-	(1)	(1)
Total non-signaller expenditure	25	(9)	(1)	15	15	-	(2)	13	(10)	9	(1)	(2)
Total network operations expenditure	56	(10)	(1)	45	43	-	(2)	41	(13)	10	(1)	(4)

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

in £m 2014-15 prices unless stated

	2014-15				PR13				Difference to PR13			
	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs	Gross costs	Own costs capitalised	Other operating income	Net costs
Support costs												
Core support costs												
Human resources	4	(1)	-	3	6	-	-	6	2	1	-	3
Information management	8	(2)	-	6	6	-	-	6	(2)	2	-	-
Government and corporate affairs	1	-	-	1	2	-	-	2	1	-	-	1
Group strategy	2	(1)	-	1	1	-	-	1	(1)	1	-	-
Finance	2	-	-	2	3	-	-	3	1	-	-	1
Business services	1	-	-	1	1	-	-	1	-	-	-	-
Accommodation	9	-	-	9	7	-	-	7	(2)	-	-	(2)
Utilities	6	-	(1)	5	4	-	-	4	(2)	-	1	(1)
Insurance	5	-	-	5	5	-	-	5	-	-	-	-
Legal and inquiry	1	-	-	1	1	-	-	1	-	-	-	-
Safety and sustainable development	2	-	-	2	1	-	-	1	(1)	-	-	(1)
Strategic sourcing	1	-	-	1	3	-	(2)	1	2	-	(2)	-
Business change	-	-	-	-	-	-	-	-	-	-	-	-
Other corporate functions	6	-	-	6	-	-	-	-	(6)	-	-	(6)
Core support costs	48	(4)	(1)	43	40	-	(2)	38	(8)	4	(1)	(5)
Other support costs												
Asset management services	7	(3)	-	4	9	-	(3)	6	2	3	(3)	2
Network Rail telecoms	8	(2)	(1)	5	5	-	-	5	(3)	2	1	-
National delivery service	5	(1)	(4)	-	4	-	(3)	1	(1)	1	1	1
Infrastructure Projects	34	(36)	-	(2)	-	-	-	-	(34)	36	-	2
Commercial property	2	(1)	(1)	-	3	-	(3)	-	1	1	(2)	-
Group costs	1	-	(7)	(6)	(1)	-	-	(1)	(2)	-	7	5
Total other support costs	57	(43)	(13)	1	20	-	(9)	11	(37)	43	4	10
Total support costs	105	(47)	(14)	44	60	-	(11)	49	(45)	47	3	5

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs of £2m in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) The PR13 assumed that no costs within Network operations or Support would be capitalised. In the Regulatory financial statements for CP4, Network Rail disclosed costs recovered (a combined figure for capital and operational items) with the statement that the majority related to capital projects. Therefore, it was highly unlikely that there would be £nil capitalised costs in CP5. This is particularly true of Infrastructure Projects, the department responsible for delivering large parts of Network Rail's renewals and enhancements programmes. Therefore, as the PR13 comparatives for gross costs and own costs capitalised appear to be understated the below comments will focus on the net costs position by function.
- (3) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (4) Network Operations costs are 10 per cent higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 with Network Operations costs of £42m (2014/15 prices). However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that, ceteris paribus, costs would exceed the regulatory allowance for 2014/15. There are also some extra costs for managed stations where as responsibility for Reading and Bristol stations have transferred to Network Rail in 2014/15 resulting in extra costs (but also additional property income). Other operating income is higher than the regulator planned due to additional proceeds from disused rail disposal, recovery of costs for work undertaken on third party assets and litter clearance. Own costs capitalised were in line with the previous year.
- (5) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group).
- (6) Human Resources - costs are noticeably lower than the determination. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Further breakdown of HR costs can be found in Statement 7b.
- (7) Finance – costs were noticeably lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service.

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

in £m 2014-15 prices unless stated

- (8) Accommodation – these property expenses were slightly lower than the determination and in line with last year.
- (9) Utilities – net costs are in line with the determination but Gross costs are higher which is offset by higher Other operating income. This appears to be because the Other operating income Network Rail receives from passing through utility costs to customers appears to be included in the Strategic sourcing department in the PR13 allowances.
- (10) Insurance - costs are in line with the determination but this does not show the full picture. In 2012/13 and 2013/14 there were a number of severe and well-publicised weather events such as the landslip at Dawlish. These events coincided with Network Rail seeking to re-negotiate its insurance contracts in the market place meaning that the funding in the determination was insufficient to acquire the insurance cover that the determination assumed. Consequently, Network Rail has reduced cover in CP5 which will manifest itself in increased Schedule 4 and Schedule 8 costs (see Statement 12) as higher excess rates mean that only major incidents are now insured. In 2014/15 there were relatively few significant events which resulted in higher incentive regime costs which would have been covered through the insurance arrangements in place in CP4.
- (11) Safety and sustainable development - costs are higher than the determination. This is due to the company focussing even more on safety by investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the prior year and in the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are funded by savings made in these areas.
- (12) Strategic sourcing – net costs are broadly in line with the regulator's determination but Gross costs and Other operating income are both lower. The regulator assumed that income received from the pass through of utility costs would be managed by Strategic sourcing. This activity is instead recorded within Utilities by Network Rail.
- (13) Other corporate functions – costs in this category mostly consist of Route Services and Route Asset Management costs as well as the costs of Network Rail's Board. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or did not expect the same level of organisational requirement. The savings compared to the PR13 in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b.
- (14) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination and in 2013/14 within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.
- (15) Infrastructure Projects - most of the costs incurred by projects are capitalised and therefore, there is usually minimal net costs within Infrastructure Projects. The amount in Infrastructure Projects for the current year relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (16) Commercial Property – costs are in line with the regulatory assumption but significantly lower than last year. As noted in last year's Regulatory financial statements the 2013/14 costs include some one-off costs relating to commercial claims. Excluding the impact of these costs the expense in 2013/14 is more in line with the 2014/15 costs.

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

in £m 2014-15 prices unless stated

(17) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14, Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments. Other operating income is higher than the regulatory assumption due to some additional income being recognised in Group for work carried out on external parties' assets (and not on Network Rail's own network). There is an offsetting amount in Gross costs and so no impact upon Group's net costs.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	42	41	(1)	40
Signalling	17	15	(2)	14
Civils	17	25	8	26
Buildings	-	4	4	9
Electrical power and fixed plant	6	4	(2)	10
Telecoms	3	3	-	3
Other network operations	20	12	(8)	10
Asset management services	3	4	1	3
National Delivery Service	(1)	5	6	1
Property	1	-	(1)	1
Group	(2)	(2)	-	(2)
Total maintenance expenditure	106	111	5	115

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

in £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs by £31m compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs of £2m in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are lower than the determination and the prior year. The main contributor to this was a lower level of Reactive maintenance expenditure than the regulator assumed and reported in the prior year. In line with Network Rail's Financial Performance Measure policies this was not recognised as financial underperformance in the current year. This was partly offset by investment in non-recurring programmes to tidy the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. This was funded through Network Rail's decision to reduce the level of incentive pay outs to senior management. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network Maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading).
- (4) Civils – costs were lower than the determination mainly as a result of a lower level of Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are lower than the prior year mostly due to a lower level of Reactive Maintenance required this year compared to 2013/14.
- (5) Buildings – there were no maintenance costs for Buildings reported in last year's Regulatory financial statements as the regulator chose to fund reactive maintenance works through Renewals last control period whereas this year, to be consistent with International Accounting Standards (IAS), these costs are accounted for as maintenance. The prior year has been restated to reflect these changes and provide a like-for-like comparison. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There has been no activity in Scotland which meets the definition of Reactive maintenance this year and so the variance between the actual and PR13 in the year is all due to differences in the reactive maintenance spend which has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Electrical power and fixed plant – although expenditure in the year was slightly more than the determination costs were significantly lower than the previous year. Costs in 2013/14 included some non-recurring electrification costs so this is not a fair comparative to use.

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

in £m 2014-15 prices unless stated

- (7) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category and accounts for the spend being higher than the regulator's assumption in 2014/15. Costs are noticeably higher than 2013/14 which is a combination of the investment in the programmes noted above and a significant increase in the asset management organisation within the routes. As part of the move towards a devolved, more accountable railway the capabilities and responsibilities of the local asset management teams have increased significantly since 2013/14, as planned in Network Rail's plans for CP5, and reflected in the expenditure allowances set by the regulator.
- (8) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The small credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided.

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

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

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

Notes:

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

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

in £m 2014-15 prices unless stated

	2014-15
Edinburgh	21
Glasgow	15
Motherwell	26
Perth	14
Centrally managed	
Structures examinations	12
Major items of maintenance plant	-
HQ managed activities	4
Other	14
Total network maintenance	106

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

in £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs.
- (2) No PR13 comparison has been provided by the ORR for this schedule.

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

	2014-15	Permanent	Agency
Edinburgh	327	327	-
Glasgow	250	250	-
Motherwell	402	402	-
Perth	216	216	-
Centrally managed			
Route HQ	268	266	2
Other HQ	74	62	12
Total network maintenance	1,537	1,523	14

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

Notes:

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

Statement 9a: Summary analysis of renewals expenditure, Scotland

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	84	88	4	84
Signalling	26	64	38	47
Civils	91	75	(16)	91
Buildings	15	16	1	29
Electrical power and fixed plant	7	12	5	17
Telecoms	8	17	9	22
Wheeled plant and machinery	7	16	9	5
Information Technology	16	9	(7)	10
Property	8	1	(7)	1
Other renewals	8	(20)	(28)	6
Total renewals expenditure	270	278	8	312

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

in £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs by £31m compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in for the year is slightly lower than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period partly offset by extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – track costs are lower than the regulator assumed. This is due to a deferral of volumes partly offset by higher than expected costs. Network Rail planned to spend £122m in the year (refer to Statement 14) which included an assessment that higher underlying costs would mean the regulator's assumption would be overspend by over £30m on a like for like basis. This higher cost was due to higher CP4 exit rates for plain line unit costs, which were higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. On a like-for-like basis actual costs were lower than Network Rail planned due to favourable settlement of contractor disputes. This was partly offset by re-profiling some planned work to later in the control period which increased the average costs of the remaining jobs. As many of the renewals costs are fixed there is a not a proportionate decrease between volumes and costs. Track non-volume consists of Fencing and Slab track and is noticeably lower than the regulator assumed and, as Statement 14 shows, some way behind Network Rail's own plan, due to deferral of activity to later in the control period. Track financial outperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient underspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 25 per cent of these savings are eligible for addition to the RAB.
- (3) Signalling – expenditure was significantly lower than the determination expected. However, this was largely due to deferral of activity, which was partly offset by higher than expected costs on a like for like basis. Additional scope and cost for Motherwell North, Pomadie to Rutherglen and Inverness. Signalling FPM has also been impacted by higher NOS (Network Operating Strategy) costs. Completion of the NOS is fundamental to achieving long-term operational savings and performance improvements through rationalising the number of signalling boxes Network Rail uses. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is generally in line with the previous year. Notable deferrals in the year include scope associated with Carstairs (to align to CP6 enhancement programme) and an element of the NOS programmes and Inverkeilor and Carmont & Stonehaven (to optimise delivery plan and costs), none of the saving has been treated as financial outperformance. Expenditure is significantly lower than the previous year due to the mix of work in the current control period compared to CP4.

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

in £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spent more on civils this year than the regulatory assumption. Earthworks expenditure is higher than the regulator's assumption due to increased activity mostly in rock and soil cuttings to respond to emerging asset condition and needs. The other notable area of overspend compared to the determination is Bridgeguard 3 where the regulator provided no allowance in 2014/15, whilst actual spend is in line with the 2013/14 level of activity. Overall, expenditure is in line with the previous year.
- (5) Buildings – expenditure in the year was in line with the determination but noticeably lower than the previous year mostly due to a large decrease in Managed stations renewals. The regulatory settlement anticipates lower expenditure in this area across the control period compared to CP4.
- (6) Electrical power and fixed plant – expenditure in the year was noticeably lower than the determination. This is due to re-profiling of works to later in the control period especially in SCADA as Network Rail seeks to find an optimal delivery strategy for this programme. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (7) Telecoms – expenditure in the year was below the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. Over half of the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5). Expenditure is higher than the previous year due to additional High output plant purchases and increased spend on Intervention items.
- (9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.
- (10) Property – costs are much higher than the determination and the prior year. The higher costs are mostly due to the expense of fitting out the new route HQ office in Glasgow in the current year. The route HQ has had to relocate following structural issues in the former premises which were identified after the determination was finalised. This additional cost is included as financial underperformance (refer to Statement 5a) For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).

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

in £m 2014-15 prices unless stated

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, approximately £7m has been spent on ORBIS this year but as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- d. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain parts of the ORBIS programme roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. As these are projects which are specific rollover items there is no prior year expenditure to compare to.

Statement 9b: Detailed analysis of renewals expenditure, Scotland

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	46	41	(5)
High output renewal	-	-	-
Plain line refurbishment	6	6	-
S&C renewal	16	15	(1)
S&C refurbishment	2	4	2
Track non-volume	7	11	4
Off track	7	11	4
Total track	84	88	4
Signalling			
Full conventional resignalling	8	32	24
Modular resignalling	1	2	1
ERTMS resignalling	2	-	(2)
Partial conventional resignalling	2	8	6
Targeted component renewal	1	3	2
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	-	-	-
Operating strategy other capital expenditure	2	3	1
Level crossings	4	4	-
Minor works	5	7	2
Centrally managed costs	1	5	4
Total signalling	26	64	38
Civils			
Underbridges	32	32	-
Overbridges	5	4	(1)
Bridgeguard 3	6	-	(6)
Major structures	9	7	(2)
Tunnels	3	2	(1)
Other assets	8	6	(2)
Structures other	6	7	1
Earthworks	22	17	(5)
Other	-	-	-
Total civils	91	75	(16)
Buildings			
Managed stations	1	2	1
Franchised stations	10	11	1
Light maint depots	2	2	-
Depot plant	-	1	1
Lineside buildings	1	-	(1)
MDU buildings	1	-	(1)
NDS depots	-	-	-
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	15	16	1

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	-	-	-
Overhead Line	1	1	-
DC distribution	-	-	-
Conductor rail	-	-	-
SCADA	-	3	3
Energy efficiency	1	1	-
System capability / capacity	-	-	-
Other electrical power	-	2	2
Fixed plant and rail heating	5	5	-
Total electrical power and plant	7	12	5
Telecoms			
Operational communications	-	1	1
Network	1	4	3
SISS	1	2	1
Projects and other	6	7	1
Non-route capital expenditure	-	3	3
Total telecoms	8	17	9
Wheeled plant and machinery			
High output	2	9	7
Incident response	-	-	-
Infrastructure monitoring	-	-	-
Intervention	1	3	2
Materials delivery	2	-	(2)
On track plant	1	-	(1)
Seasonal	-	3	3
Locomotives	-	-	-
Fleet support plant	-	1	1
Road vehicles	1	-	(1)
S&C delivery	-	-	-
Total wheeled plant and machinery	7	16	9
Information Technology			
IM delivered renewals	14	8	(6)
Traffic management	2	1	(1)
Total information technology	16	9	(7)
Property			
MDUs/offices	5	1	(4)
Commercial estate	3	-	(3)
Corporate services	-	-	-
Total property	8	1	(7)
Other renewals			
Asset information strategy	-	6	6
Intelligent infrastructure	1	2	1
Faster isolations	-	2	2
LOWS	-	-	-
Small plant	-	1	1
Research and development	-	-	-
Phasing overlay	-	(31)	(31)
Engineering innovation fund	-	-	-
CP4 rollover	7	-	(7)
Other	-	-	-
West Coast	-	-	-
Total other renewals	8	(20)	(28)
Total renewals	270	278	8

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

in £m 2014-15 prices unless stated

Comments:

- (1) Renewals expenditure in for the year is slightly lower than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period partly offset by extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5.
- (2) Track – track costs are lower than the regulator assumed. This is due to a deferral of volumes partly offset by higher than expected costs. Network Rail planned to spend £122m in the year (refer to Statement 14) which included an assessment that higher underlying costs would mean the regulator's assumption would be overspend by over £30m on a like for like basis. This higher cost was due to higher CP4 exit rates for plain line unit costs, which were higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. On a like-for-like basis actual costs were lower than Network Rail planned due to favourable settlement of contractor disputes. This was partly offset by re-profiling some planned work to later in the control period which increased the average costs of the remaining jobs. As many of the renewals costs are fixed there is a not a proportionate decrease between volumes and costs. Track non-volume consists of Fencing and Slab track and is noticeably lower than the regulator assumed and, as Statement 14 shows, some way behind Network Rail's own plan, due to deferral of activity to later in the control period. Track financial outperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient underspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 25 per cent of these savings are eligible for addition to the RAB.
- (3) Signalling – expenditure was significantly lower than the determination expected. However, this was largely due to deferral of activity, which was partly offset by higher than expected costs on a like for like basis. Additional scope and cost for Motherwell North, Pomadie to Rutherglen and Inverness. Signalling FPM has also been impacted by higher NOS (Network Operating Strategy) costs. Completion of the NOS is fundamental to achieving long-term operational savings and performance improvements through rationalising the number of signalling boxes Network Rail uses. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is generally in line with the previous year. Notable deferrals in the year include scope associated with Carstairs (to align to CP6 enhancement programme) and an element of the NOS programmes and Inverkeilor and Carmont & Stonehaven (to optimise delivery plan and costs), none of the saving has been treated as financial outperformance.
- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spent more on civils this year than the regulatory assumption. Earthworks expenditure is higher than the regulator's assumption due to increased activity mostly in rock and soil cuttings to respond to emerging asset condition and needs. The other notable area of overspend compared to the determination is Bridgeguard 3 where the regulator provided no allowance in 2014/15, whilst actual spend is in line with the 2013/14 level of activity.
- (5) Electrical power and fixed plant – expenditure in the year was noticeably lower than the determination. This is due to re-profiling of works to later in the control period especially in SCADA as Network Rail seeks to find an optimal delivery strategy for this programme.

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

in £m 2014-15 prices unless stated

- (6) Telecoms – expenditure in the year was below the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (7) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5).
- (8) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver.
- (9) Property – costs are much higher than the determination. The higher costs are mostly due to the expense of fitting out the new route HQ office in Glasgow in the current year. The route HQ has had to relocate following structural issues in the former premises which were identified after the determination was finalised. This additional cost is included as financial underperformance (refer to Statement 5a) For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (10) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, approximately £7m has been spent on ORBIS this year but as this is on CP4 elements of the project it has been included in the CP4 rollover classification.
 - b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding.
 - c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
 - d. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain parts of the ORBIS programme roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014.

Statement 10: Other information, Scotland

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	11	21	10	8
Access charge supplement Income	(20)	(20)	-	(10)
Net (income)/cost	(9)	1	10	(2)
Schedule 8				
Performance element income	(1)	-	1	-
Performance element costs	4	-	(4)	2
Access charge supplement Income	-	-	-	-
Net (income)/cost	3	-	(3)	2

B) Opex memorandum account

	2014-15	CP4
Volume incentive	1	13
Proposed income/(expenditure) to be included in the CP6		
Business Rates	-	-
RSSB Costs	-	-
ORR licence fee and railway safety levy	-	-
Reporters fees	-	-
Other industry costs	-	-
Difference in CP4 opex memo	(1)	-
Proposed Opex to be included in the CP5 expenditure allowance	-	-
Total logged up items	-	13

Statement 10: Other information, Scotland – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are lower than the determination due to more efficient planning of possessions and also from deferrals of renewals activity to later in the control period. When Network Rail measures its financial performance it does not take into account savings or additional expenditure generated by renewal activity re-profiling (refer to Statement 5). In addition, costs in the current year benefitted from some favourable settlements of commercial claims. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the current year cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2014/15 largely due to delays caused by infrastructure failings and additional network congestion. The level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network in Scotland at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. Extra traffic generated during the Glasgow Commonwealth games in the year placed additional strain on achieving punctuality targets. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the current year cost cannot be compared to the 2013/14 number in a meaningful way.
- (3) The opex memorandum currently shows a net income position. This means that Network Rail's income in the PR18 will be adjusted to reflect this subject to the regulator's overall funding decisions for CP6. The opex memorandum includes the difference between the CP4 opex memorandum assumed in the PR13 and the actual outturn at the end of CP4. This meant that the regulator is compensating Network Rail for income shortfalls in CP4 during this control period. This is offset by the amounts Network Rail have earned in the current year under the volume incentive mechanism from increased traffic on the railway (refer to Statement 12).

Statement 12: Volume incentives, Scotland

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year	2013-14 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	5	1	33	32	0.7%	1.46	pence per passenger train mile
Passenger farebox (millions)	2	-	450	426	1.7%	2.5%	% of additional farebox revenue
Freight train miles (millions)	-	-	1	1	1.4%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	(1)	-	1,136	1,157	2.4%	2.50	pence per freight 1,000 gross tonne mile
Total volume incentive	6	1					

The cumulative volume incentive is determined by the formula: $(A_t - (B_{t-1} \times (1 + C_t))) \times D \times 5$

Where:

A_t = Actual in year quantity

B = 2014-15 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Scotland – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £1m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Scotland

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

Ref	Description	Unit of Measure (unit)	Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
			£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	4,745	451	2,140	-	2,140	612	-	161	n/a
MNT005	Plain Line Stoneblowing (km)	km	8,656	154	1,333	-	1,333	382	-	228	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	138	1,307	181	-	181	1,998	-	691	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	323	1,072	346	-	346	692	-	(380)	n/a
MNT007	S&C Tamping (point end)	Point end	3,447	320	1,103	-	1,103	399	-	79	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	557	1,530	852	-	852	2,682	-	1,152	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	95	9,740	925	-	925	11,705	-	1,965	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	62	1,796	111	-	111	179	-	(1,617)	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	4	95,960	387	-	387	121,551	-	25,591	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	14	47,210	676	-	676	88,000	-	40,790	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	18	81,135	1,499	-	1,499	91,045	-	9,910	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	9	100,883	930	-	930	45,000	-	(55,883)	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	13,957	70	977	-	977	76	-	6	n/a
MNT122	S&C Maintenance (point end)	Point end	22	77,036	1,731	-	1,731	34,843	-	(42,193)	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	17,462	26	454	-	454	79	-	53	n/a
MNT124	S&C Stoneblowing (point end)	Point end	-	-	-	-	-	69	-	69	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	71	-	-	-	1,256	-	1,185	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	212	-	-	-	216	-	4	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	9	112,843	1,032	-	1,032	189,756	-	76,913	n/a
MNT073	Drainage (Yard)	Yard	6	69,957	421	-	421	151,906	-	81,949	n/a
MNT075	LX Management - Off Track (Each)	Each	146	2,164	317	-	317	2,849	-	685	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	24	6,154	147	-	147	13,147	-	6,993	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	453,000	1	453	-	453	1,178	-	1,177	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	2	468,389	808	-	808	171,300	-	(297,089)	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	(39)	207	(8)	-	(8)	26	-	(181)	n/a
N/A	Non volume track and off-track maintenance	£m	-	-	-	25,176	25,176	-	-	-	n/a
Total track and off-track maintenance			-	-	16,815	25,176	41,991	-	41,215	-	(776)
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				16,847	16,847		-	-	(16,847)
Total signalling maintenance						16,847	16,847		15,161		(1,686)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Scotland - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

				Actual		Network Rail Business Plan		Difference to Business Plan			
		In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost	
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	8,833	-	-	-	9,084	-	251	n/a
MNT221	Detailed Examinations	No.	-	1,301	-	-	-	1,767	-	466	n/a
MNT222	Underwater Examination	No.	-	94	-	-	-	152	-	58	n/a
MNT223	Ancillary Structure examination	No. detailed	-	199	-	-	-	246	-	47	n/a
MNT224	Hidden critical element examinations	No.	-	92	-	-	-	197	-	105	n/a
MNT225	Load carrying assessment	No. spans	-	111	-	-	-	1,410	-	1,299	n/a
MNT226a	Visual Examinations (Civils)	No.	-	10,535	-	-	-	11,414	-	879	n/a
N/A	Non volume civils maintenance	£m				16,415	16,415			-	n/a
Total civils maintenance						16,415	16,415		24,939		8,524
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	352	-	-	-	1,319	-	967	n/a
MNT227	5 yearly examinations	Each	-	182	-	-	-	338	-	156	n/a
N/A	Non volume buildings maintenance	£m				(12)	(12)			-	n/a
Total buildings maintenance						(12)	(12)		4,212		4,224
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	-	-	-	-	-	-	-	-	n/a
MNT209	Maintain DC Traction Power Supplies	Each	49	1,213	59	-	59	-	-	(1,213)	n/a
MNT211	Maintain OHL Components	Various	57	19,591	1,121	-	1,121	42,000	-	22,409	n/a
MNT212	Maintain Points Heating	Each	25	6,394	160	-	160	8,546	-	2,152	n/a
MNT213	Maintain Signalling Power Supplies	Number	42	4,569	190	-	190	6,316	-	1,747	n/a
Non volume electrical power and fixed plant maintenance											
N/A		£m				4,521	4,521			-	n/a
Total electrical power and fixed plant maintenance						1,530	4,521	6,051	4,266		(1,785)
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				2,845	2,845			-	n/a
Total telecoms maintenance						2,845	2,845		2,663		(182)
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				19,644	19,644			-	n/a
Total other network operations maintenance						19,644	19,644		11,698		(7,946)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Scotland - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				3,314	3,314			-	n/a
Total asset management services maintenance						3,314	3,314		3,571		257
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(524)	(524)			-	n/a
Total national delivery service maintenance						(524)	(524)		4,530		5,054
Property maintenance											
N/A	Non volume property maintenance	£m				903	903			-	n/a
Total property maintenance						903	903		323		(580)
Group maintenance											
N/A	Non volume group maintenance	£m				(1,907)	(1,907)			-	n/a
Total group maintenance						(1,907)	(1,907)		(1,773)		134
Total							105,567		110,805		5,238

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Scotland – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	ckm	366	142	52	-	52	288	260	75	-	75	(78)	118	23	-	23
	Conventional		541	85	46	-	46	509	114	58	-	58	(32)	29	12	-	12
	High Output		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Refurbishment		105	57	6	-	6	116	146	17	-	17	11	89	11	-	11
	S&C	point enc	295	61	18	-	18	270	89	24	-	24	(25)	28	6	-	6
	Track Drainage		-	-	7	-	7	3,000	3	9	-	9	3,000	3	2	-	2
	Renewal	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Refurbishment	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	New Build	lm	-	-	-	-	-	-	3	-	-	-	-	3	-	-	-
	Fencing		22	226	5	-	5	23	215	5	-	5	1	(11)	-	-	-
	Slab Track		-	-	-	2	2	1	-	-	7	7	1	-	-	5	5
	Off track		-	-	-	-	-	(10)	-	-	2	2	(10)	-	-	2	2
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					82	2	84			113	9	122			31	7	38
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	14	n/a	n/a	n/a	-	42	n/a	n/a	n/a	-	28
	Full conventional																
	resignalling	SEU	2,000	4	8	-	8	7,750	4	31	-	31	5,750	-	23	-	23
	Modular resignalling	SEU	-	-	1	-	1	-	-	2	-	2	-	-	1	-	1
	ERTMS resignalling	SEU	-	-	2	-	2	-	-	-	-	-	-	-	(2)	-	(2)
	Partial conventional																
	resignalling	SEU	-	-	2	-	2	-	-	7	-	7	-	-	5	-	5
	Targeted component																
	renewal	SEU	-	-	1	-	1	500	4	2	-	2	500	4	1	-	1
	Level crossings	No.	800	5	4	-	4	1,000	4	4	-	4	200	(1)	-	-	-
	Signalling other		-	-	-	8	8	-	-	-	15	15	-	-	-	7	7
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk																
	provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Operating strategy other																
	capex		n/a	n/a	n/a	2	2	n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1
	Minor works		n/a	n/a	n/a	5	5	n/a	n/a	n/a	7	7	n/a	n/a	n/a	2	2
	Centrally managed costs		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					18	8			-	46	15	61			28	7	35

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	55	n/a	n/a	n/a	-	53	n/a	n/a	n/a	-	(2)
	Underbridges	m2	3	10,860	32	-	32	1	14,078	35	-	35	(1)	3,218	3	-	3
	Overbridges (incl BG3)	m2	9	1,285	11	-	11	3	1,467	6	-	6	(5)	182	(5)	-	(5)
	Tunnels	m2	2	1,360	3	-	3	1	1,360	2	-	2	(1)	-	(1)	-	(1)
	Major structures	m2	-	-	-	9	9	-	-	-	10	10	-	-	-	1	1
	Other structures assets		n/a	n/a	n/a	-	8	n/a	n/a	n/a	-	7	n/a	n/a	n/a	-	(1)
	Culverts	m2	15	333	5	-	5	11	261	3	-	3	(4)	(72)	(2)	-	(2)
	Footbridges	m2	2	424	1	-	1	4	503	2	-	2	2	79	1	-	1
	Coastal & Estuary Defences	m	3	330	1	-	1	3	330	1	-	1	-	-	-	-	-
	Retaining Walls	m2	13	75	1	-	1	2	432	1	-	1	(11)	357	-	-	-
	Earthworks	5-chain	30	728	22	-	22	29	430	15	-	15	(1)	(298)	(7)	-	(7)
	EW Drainage		-	2,194	-	-	-	-	4,739	4	-	4	-	2,545	4	-	4
	Renewal	lm	-	10	-	-	-	-	1,483	-	-	-	-	1,473	-	-	-
	Refurbishment	lm	-	210	-	-	-	-	340	-	-	-	-	130	-	-	-
	Maintenance	lm	-	277	-	-	-	-	2,916	-	-	-	-	2,639	-	-	-
	New Build	lm	-	1,697	-	-	-	-	-	-	-	-	-	(1,697)	-	-	-
	Structures other		-	-	-	6	6	-	-	-	5	5	-	n/a	-	(1)	(1)
	Other		-	-	-	-	-	-	-	-	(8)	(8)	-	n/a	-	(8)	(8)
	Total				76	15	91			69	7	76			(7)	(8)	(15)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	10	n/a	n/a	n/a	-	15	n/a	n/a	n/a	-	5
	Footbridges	m2	-	-	1	-	1	-	276	n/a	n/a	-	n/a	276	n/a	n/a	-
	Train Sheds	m2	-	460	-	-	-	-	584	n/a	n/a	-	n/a	124	n/a	n/a	-
	Canopies	m2	1	5,339	3	-	3	-	8,673	n/a	n/a	-	n/a	3,334	n/a	n/a	-
	Platforms	m2	0	2,580	1	-	1	-	2,434	n/a	n/a	-	n/a	(146)	n/a	n/a	-
	Buildings	m2	-	-	1	-	1	-	553	n/a	n/a	-	n/a	553	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	67	n/a	n/a	-	n/a	67	n/a	n/a	-
	Other		-	-	-	4	4	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	1	n/a	n/a	n/a	-	2	n/a	n/a	n/a	n/a	1
	Footbridges	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	280	-	-	-	-	320	n/a	n/a	-	n/a	40	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	7	n/a	n/a	-	n/a	7	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	8,444	2	-	2	-	1,332	-	-	3	n/a	(7,112)	n/a	n/a	1
	Buildings	m2	-	11	-	-	-	-	899	n/a	n/a	-	n/a	888	n/a	n/a	-
	Depot Shed	m2	-	8,433	-	-	-	-	433	n/a	n/a	-	n/a	(8,000)	n/a	n/a	-
	Lineside Buildings	m2	-	-	1	-	1	-	265	n/a	n/a	1	n/a	265	n/a	n/a	-
	MDU Buildings	m2	0	3,750	1	-	1	-	56	n/a	n/a	-	n/a	(3,694)	n/a	n/a	(1)
	Depot Plant		-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	NDS Depots		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(6)	n/a	n/a	n/a	n/a	(6)
	Total				10	5	15			-	-	16			-	-	1

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	1	-	-	-	-	1	-	-	-	-	-
	Overhead Line Equipment (OLE) Re-wiring	wire runs	-	37	-	-	-	-	1	n/a	n/a	-	n/a	(36)	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	AC distribution		-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Transformer Rectifiers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	5	-	-	n/a	n/a	5	n/a	n/a	n/a	n/a	-
	Signalling Power Cable Renewal	km	-	-	3	-	3	-	27	n/a	n/a	-	n/a	27	n/a	n/a	-
	Principle Supply Point Renewal	No.	100	10	1	-	1	-	-	n/a	n/a	-	n/a	(10)	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	SCADA		-	-	-	-	-	-	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	Energy efficiency		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)
	System capability / capacity		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other electrical power		-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					4	3	7			-	-	11			-	-	4

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	1	-	-	-	-	-	n/a	n/a	n/a	n/a	(1)
	Customer Information Systems	No.	-	-	-	-	-	-	14	n/a	n/a	-	n/a	14	n/a	n/a	-
	Public Address	No.	2	511	1	-	1	-	1,410	n/a	n/a	-	n/a	899	n/a	n/a	-
	CCTV	No.	-	54	-	-	-	-	20	n/a	n/a	-	n/a	(34)	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Operational Comms		-	-	-	-	-	-	-	n/a	n/a	2	n/a	n/a	n/a	n/a	2
	PABX Concentrator	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Processor Controlled Concentrator	Lines	-	-	-	-	-	-	629	n/a	n/a	-	n/a	629	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	-	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Driver-Only Operation: Mirrors	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Emergency Telephone System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	2	n/a	n/a	n/a	n/a	1
	Projects and other		n/a	n/a	n/a	6	6	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(6)
	Non route capex		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	11	n/a	n/a	n/a	n/a	11
	Total				1	7	8			-	-	15			-	-	7

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Wheeled plant and machinery	High output		n/a	n/a	n/a	2	2	n/a	n/a	n/a	8	8	n/a	n/a	n/a	6	6
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2
	Materials delivery		n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	7	7			-	15	15			-	8	8
IT	IM delivered renewals		n/a	n/a	n/a	14	14	n/a	n/a	n/a	13	13	n/a	n/a	n/a	(1)	(1)
	Traffic management		n/a	n/a	n/a	2	2	n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	16	16			-	16	16			-	-	-
Property	MDUs/offices		n/a	n/a	n/a	5	5	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(4)	(4)
	Commercial estate		n/a	n/a	n/a	3	3	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(3)	(3)
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	8	8			-	1	1			-	(7)	(7)
Other renewals	Asset information strategy		n/a	n/a	n/a	-	-	n/a	n/a	n/a	6	6	n/a	n/a	n/a	6	6
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1
	Faster isolations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	CP4 Rollover		n/a	n/a	n/a	7	7	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(7)	(7)
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
Total					-	8	8			-	16	16			-	8	8
Total Renewals							270		-	-	-	349		-			79

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

in £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (3) Track - Conventional - the reduced outturn in Conventional works is predominantly driven by a reduction in activity across complete renewal and re-railing portfolio across a number of routes. Much of the adverse relates to category 11 works (Rerail, Resleeper, Reballast – Trax), as cancellations/shortfalls associated with haulage combined with possessions and resource availability have led to a large divergence from initial plan.
- (4) Track - Refurbishment - Refurbishment workbank was down from plan nationally. The shortfall in Scotland is due to the de-prioritisation of a large proportion of the refurbishment workbank to safeguard the remainder of the workbank due to stretched resource and access availability.
- (5) Track - Switches & Crossings – volume reductions are largely due to adverse weather and access restrictions causing units planned for this year to slip into 2015/16.
- (6) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (7) Signalling – Targeted component renewal - slippage at Inverkeilor and Carmont & Stonehaven as optimal project delivery strategies are sought for these projects.
- (8) Structures - Underbridges - workbank is below plan which is predominately due to the late award of new framework contracts which has resulted in lower than planned activity in the current year. Securing appropriate framework contracts gives the best opportunity for Network Rail to deliver the right volume and quality of activity in a safe manner at an affordable price during the control period. In addition, other works have been deferred owing to environmental factors (Kinclair viaduct) and re-tendering (Lairthat).
- (9) Structures - Overbridges - workbank is below plan due to a number of factors including the aforementioned delays in awarding framework contracts as well as disputes with landowners preventing site access.
- (10) Structures - Retaining Walls - workbank is below plan due to delays on Langbank site which is scheduled for completion in now 2015/16 once the pre-requisite Coastal & estuary defences work is completed.
- (11) Earthworks - volumes are ahead of plan due to acceleration of activity into the current year. Additional unutilised resource enabled early completion of additional schemes in 2014/15.
- (12) Buildings - Franchised Stations – deferrals of Canopies volumes due to difficulties obtaining the required planning permission from local councils for projects in Aberdeen and Sterling.

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

in £m 2014-15 prices unless stated

- (13) Electrification - OLE Rewiring – over delivery relates to works originally commenced in 2013/14 but completed in 2014/15. Under the agreed volume recognition policy between Network Rail and ORR volumes are only reported at the stage the project is complete and the assets in use. These extra volumes have been incorporated into the CP5 workbank.
- (14) Electrification – Signalling power cable – volumes are lower than planned as the work scheduled for this year has been deferred into 2015/16. Projects were delayed due to the late award of the framework contract for the supply of these outputs. This has now been awarded which should result in efficient delivery next year through consolidating control period activity into fewer projects.
- (15) Electrification – Principle supply point renewal – extra volumes delivered relate to CP4 projects rolled over into the current year.
- (16) Telecoms - Station Information and Surveillance Systems (SISS) - There are a number of new SISS schemes where delivery was planned for 2014/15 but has been delayed by Network Rail's review of the SISS strategy. This has led to significant volume movements out of this year and into later years of CP5.
- (17) Telecoms - Operational Comms - PABX concentrators volumes are lower than Network Rail's published CP5 Business Plan as they are dependent on large renewal projects which can slip into future years. Yoker concentrator renewal was been de-prioritised and moved to future years.

Statement 1: Summary regulatory financial performance, Anglia

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	379	377	2	292
Fixed Income	34	34	-	104
Variable Income	99	95	4	78
Other Single Till Income	78	75	3	107
Opex memorandum account	-	-	-	-
Total Income	590	581	9	581
Operating expenditure				
Network operations	48	43	(5)	47
Support costs	42	50	8	59
Traction electricity, industry costs and rates	71	63	(8)	68
Network maintenance	129	112	(17)	115
Schedule 4	19	15	(4)	17
Schedule 8	10	-	(10)	4
Total operating expenditure	319	283	(36)	310
Capital expenditure				
Renewals	257	195	(62)	271
PR13 enhancement expenditure	89	55	(34)	99
Non PR13 enhancement expenditure	8	-	(8)	63
Total capital expenditure	354	250	(104)	433
Other expenditure				
Financing costs	112	131	19	120
Corporation tax (received)/paid	-	-	-	(1)
Rebates	-	-	-	9
Total other expenditure	112	131	19	128
Total expenditure	785	664	(121)	871

Statement 1: Summary regulatory financial performance, Anglia – continued

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was the same as the determination. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was higher than the determination mostly due to higher electricity costs that Network Rail could pass onto operators. This is offset by higher Operating expenditure. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is higher than the determination due to increased property sales. This is set out in more detail in Statement 6b.
- (6) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as delays in implementing efficiency initiatives. These variances are set out in more detail in Statement 7a.
- (7) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher electricity costs which are largely recovered from operators through income. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Network Maintenance costs are higher than the determination and the previous year which is mostly a result investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (10) Operating expenditure - Schedule 4 costs are higher than the determination due to additional possessions required to facilitate certain renewals programmes partly offset by acceleration of renewals activity from future years. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (11) Operating expenditure - Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets for the first year of the control period. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a.
- (13) Capital expenditure - PR13 Enhancements expenditure is greater than the determination. This is mainly due to acceleration of spend on the Crossrail programme. These variances are set out in more detail in Statement 3.
- (14) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (15) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments and is lower than the determination largely as a result of lower inflation than the regulator assumed. This is set out in more detail in Statement 4.
- (16) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

Statement 2a: RAB - regulatory financial position, Anglia

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	3,753	3,753	-
Indexation to 2013-14 prices	99	99	-
Opening RAB for the year (2013-14 prices)	3,852	3,852	-
Indexation for the year	76	76	-
Opening RAB (2014-15 prices)	3,928	3,928	-
Adjustments for the actual capital expenditure outturn in			
CP4	112	-	112
Renewals	240	195	45
PR13 enhancements	90	57	33
Non-PR13 enhancements	5	-	5
Total enhancements	95	57	38
Amortisation	(194)	(194)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2015	4,181	3,986	195

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	3,928
Adjustments for the actual capital expenditure outturn in	
CP4	112
Renewals	240
PR13 enhancements	90
Non-PR13 enhancements	5
Total enhancements	95
Amortisation	(194)
Adjustments for under-delivery of regulatory outputs	-
Closing RAB	4,181

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

in £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was a combination of re-profiling activity from future years, expenditure rolled over from CP4 (for which the regulator adjusted the renewals allowances) and some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was higher than the regulator assumed. This was mainly due to the increased spend on the Crossrail programme in Anglia compared to the regulator's assumptions. The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position.

Statement 2b: RAB - reconciliation of expenditure, Anglia

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Renewals	
Renewals per the PR13 determination	195
Adjustments to the PR13 determination	
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	32
Capitalised financing on CP4 deferrals	1
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (renewals)	228
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(47)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)
Adjustments for efficient overspend	72
Capitalised financing on efficient overspend	2
25% retention of efficient overspend	(18)
Capitalised financing on efficient overspend 25% retention	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing on efficient underspend 25% retention	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments for efficient overspend through spend to save framework	5
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other adjustments	-
Capitalised financing on other adjustments	-
Total Renewals (added to the RAB - see Statement 2a)	240
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	(2)
Adjustment for retention of efficient overspend (including spend to save adjustment)	19
Adjustment for retention of efficient underspend	-
Other adjustments	-
Total actual renewals expenditure (see statement 9)	257

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

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	57
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	1
Capitalised financing on CP4 deferrals	-
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	-
Capitalised financing on adjustments to DfT funding	-
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (enhancements)	57
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	32
Capitalised financing on acceleration / (deferrals) of expenditure	1
Adjustments for efficient overspend	-
Capitalised financing on efficient overspend	-
25% retention of efficient overspend	-
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-
Capitalised financing relating to projects with tailored protocols or fixed price	-
Adjustments for efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	90
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	6
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)
Capitalised financing on non-PR13 enhancements expenditure	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	-
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	5
Total enhancements (added to the RAB - see statement 2a)	95
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	(1)
Adjustment for retention of efficient overspend (including spend to save adjustment)	1
Other adjustments (including discretionary investment)	2
Adjustment for retention of efficient underspend	-
Non-PR13 enhancement expenditure	
Third party funded schemes	25
Other adjustments	-
Total actual enhancement expenditure (see statement 3)	122

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

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancement – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted.
- (10) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.
- (11) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition.

Statement 3: Analysis of enhancement capital expenditure, Anglia

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Funds			
East coast connectivity	-	-	-
Stations - National Station Improvement Programme (NSIP)	1	4	3
Stations - Access for All (AfA)	4	7	3
Development	9	3	(6)
Level crossing safety	-	2	2
Passenger journey improvement	-	6	6
The strategic rail freight network	22	10	(12)
Total funds	36	32	(4)
Committed projects			
Crossrail	40	1	(39)
IEP Programme	-	1	1
Thameslink	1	4	3
Total committed projects	41	6	(35)
Named schemes			
Ports and Airports			
Service Improvements in the Ely Area	-	1	1
Total Named Schemes	-	1	1
HLOS capacity metric schemes			
West Anglia main line capacity increase	2	-	(2)
Bow Junction upgrade with Chelmsford & Wickford turnbacks	2	1	(1)
Anglia traction power supply upgrade	3	7	4
Total HLOS capacity metric schemes	7	8	1
CP4 project rollovers			
Station security	-	-	-
Other CP4 Rollover	-	-	-
Total CP4 rollovers	-	-	-
Other projects			
Seven day railway projects	1	-	(1)
ERTMS Cab fitment	-	-	-
R&D allowance	-	1	1
Income generating property schemes	4	4	-
Other income generating investment framework schemes	-	3	3
Total other projects	5	8	3
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	89	55	(34)
B) Investments not included in PR13			
Government sponsored schemes			
Other government sponsored schemes	3	-	(3)
Total Government sponsored schemes	3	-	(3)
Network Rail spend to save schemes			
Other spend to save schemes	3	-	(3)
Total Network Rail spend to save schemes	3	-	(3)
Total Schemes promoted by third parties	-	-	-
Discretionary Investment	2	-	(2)
Total non PR13 enhancement expenditure	8	-	(8)
Total Network Rail funded enhancements (see Statement 1)	97	55	(42)
Third Party PAYG	25	-	(25)
Total enhancements (see statement 2b)	122	55	(67)

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

in £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £97m (as shown in Statement 1). This comprises the total enhancement figure in the table above £122m less the PAYG schemes funded by third parties (£25m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when investment activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (c) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. The regulator assumed a different profile of expenditure in the determination compared the profile planned by Network Rail resulting in additional expenditure this year but costs during the control period are not expected to exceed the funding available.

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

in £m 2014-15 prices unless stated

- (d) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.
 - (e) The Strategic rail freight network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Although expenditure in the year was higher than the regulator assumed about half of this difference was expected in Network Rail's internal plan as works were accelerated from future years to 2014/15.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Spend in the year is lower than the determination due to re-profiling of expenditure during the control period.
 - (b) Crossrail - This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Spend is noticeably higher than the determination as the regulator assumed a different geographical spread of activity compared to where the costs in the control period are occurring. As this is due to a difference in assumptions and the total England & Wales programme expenditure is expected to be in line with the funding available none of this variance has been classified as financial underperformance (as reported in Statement 5a). Similarly, in other routes where expenditure is lower than the determination none of this has been recognised as financial outperformance.
- (7) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Anglia Traction Power Supply Upgrade – this programme aims to upgrade the electricity supply infrastructure in the route to facilitate the expected increase in electrically operating rolling stock. Expenditure was lower than the determination due to different assumptions in ORR's assumption about the phasing of activity on this programme compared to Network Rail's plans. Expenditure in the year is broadly in line with Network Rail's planned activity for the year.
- (8) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
- (a) Seven day railway projects – Network Rail has invested this fund quicker than the regulator assumed in the first year of the control period. The seven day railway programme was also available in control period 5 meaning the company has a mature governance process for identifying appropriate projects. This has allowed Network Rail to accelerate funding from future years in order to gain maximum benefit of this fund by investing at the start of the control period.
 - (b) R&D allowance – the regulator assumed that Network Rail would invest this fund evenly over the control period. However, Network Rail have spent more slowly in the first year of the control period as it seeks to identify those schemes which will deliver maximum benefit to the industry. The R&D allowance is a new principle for control period 5 so Network Rail is considering the optimal use of this funding allowance.
 - (c) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.

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

in £m 2014-15 prices unless stated

- (9) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
- (a) Network Rail Spend to save – acquisition of freight sites and paths. Most of the costs of these acquisitions were incurred in control period 4 and included in last year's Regulatory financial statements.
- (b) Discretionary investment – this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).

Statement 4: Net debt and financial ratios, Anglia

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	2,645	2,629	(16)
Income			
Grant income	(379)	(377)	2
Fixed charges	(34)	(34)	-
Variable charges	(99)	(95)	4
Other single till income	(78)	(75)	3
Total income	(590)	(581)	9
Expenditure			
Network operations	48	43	(5)
Support costs	42	50	8
Traction electricity, industry costs and rates	71	63	(8)
Network maintenance	129	112	(17)
Schedule 4	19	15	(4)
Schedule 8	10	-	(10)
Renewals	257	195	(62)
PR13 enhancement	89	57	(32)
Non-PR13 enhancement	8	-	(8)
Total expenditure	673	535	(138)
Financing			
Interest expenditure on nominal debt - FIM covered	40	41	1
Interest expenditure on index linked debt - FIM covered	19	20	1
Expenditure on the FIM	29	30	1
Interest expenditure on government borrowing	7	-	(7)
Interest on cash balances held by Network Rail	(1)	(1)	-
Total interest costs	94	90	(4)
Accretion on index linked debt - FIM covered	18	41	23
Total financing costs	112	131	19
Corporation tax	-	-	-
Other	34	46	12
Movement in net debt	229	131	(98)
Closing net debt	2,874	2,760	(114)

D) Financial indicators

	2014-15 Actual	2014-15 PR13
Adjusted interest cover ratio (AICR)	0.80	1.20
FFO/interest	2.85	3.36
Net debt/RAB (gearing)	68.8%	69.1%
FFO/debt	9.4%	11.0%
RCF/debt	6.1%	7.7%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

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

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Debt attributable to Anglia has increased by over £200m during the year. Most of this was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is over £100m higher than the regulator assumed. This is mostly due to higher investment in the railway network, increased operating costs partly offset by favourable interest costs.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.
 - b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed. The rates for this type of debt have been generally in line with expectation but, as discussed above, Network Rail has reduced the proportion of index-linked debt held.

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

in £m nominal unless otherwise stated

- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers.

(14) 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 April 2014. ****Retained cash flow (RCF) is defined as FFO minus net interest.

- (15) Financial indicators – AICR – a ratio of less than 1 suggests that the route is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected Anglia to be able to cover its interest costs through its trading profits (assuming an assumption for steady state renewals) by a factor of 1.2 times. The variance in the year is caused by higher net operating costs arising from higher than expected performance regime costs and Network maintenance costs partly offset by savings in Support costs.
- (16) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is slightly lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m.

in £m 2014-15 prices unless stated

[illegible]

Statement 5a: Total financial performance, Anglia - continued

in £m 2014-15 prices unless stated

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Variable income:						
Adjustments for external traction electricity	(42)	(37)		(42)	(37)	-
Total variance not included in total financial performance:	(42)	(37)	-	(42)	(37)	-

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Support costs:						
Release of CP4 long distance financial penalty provision	2	-	2	2	-	2
Total variance not included in total financial performance:	2	-	2	2	-	2

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Traction electricity:						
Adjustments for external traction electricity	42	37	5	42	37	5
Total variance not included in total financial performance:	42	37		42	37	

Statement 5a: Total financial performance, Anglia – continued

in £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (3) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Variable income – minor financial underperformance has been delivered as a result of decreased capacity charges. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (3) Other single till income – The outperformance recognised in Other single till income is mainly the result of increased property sales compared to the regulator's determination.
- (4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (5) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate. The determination assumed that Network Rail would exit the control period with a lower cost base. However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a higher cost base than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely.

Statement 5a: Total financial performance, Anglia – continued

in £m 2014-15 prices unless stated

- (6) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (7) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police (BTP) costs compared to the assumption in the determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.
- (8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (9) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on variances in Reactive maintenance spend in the opening year of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved. Underlying Network maintenance costs are notably higher than the determination. The main contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs. In addition, adverse asset condition necessitated undertaking additional maintenance volume activities within Anglia and maintenance costs were also affected by delays in implementing local efficiency initiatives.
- (10) Schedule 4 costs – costs were higher than the regulator assumed which was partly due to delivering more renewals volumes than the regulator assumed. This acceleration has been classified within the Variances in volume of work column. The remaining variance is due to underperformance as possession costs were higher than planned. A significant contributor was the Colchester S&C renewal project where a planned shuttle service to Liverpool Street could not run, resulting in higher costs.
- (11) Schedule 8 costs – the additional costs compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn.
- (12) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (13) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).

Statement 5a: Total financial performance, Anglia – continued

(in £m 2014-15 prices unless stated)

- (14) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (15) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Anglia were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Anglia also faces a reduction for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Anglia were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Anglia also faces a reduction for this missed output.

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

in £m 2014-15 prices unless stated

	Variance to PR13	Deferral/ (acceleration) of work	Final Variance	2014-15 Financial out/(under) performance	Due to:	Cost (in) / efficiency	Scope (in) / efficiency	Other (in) / efficiencies
	A	B	C	D		E	F	G
Track	(17)	15	(32)	(8)		(6)	(2)	-
Signalling	(12)	-	(12)	(3)		(4)	1	-
Civils	(10)	(2)	(8)	(2)		(2)	-	-
Buildings	-	4	(4)	(1)		(1)	-	-
Electrical power and fixed plant	12	16	(4)	(1)		-	(1)	-
Telecoms	-	-	-	-		-	-	-
Wheeled plant and machinery	9	9	-	-		-	-	-
IT	(6)	(6)	-	-		-	-	-
Property	1	1	-	-		-	-	-
Other renewals	(39)	(27)	(12)	(3)		(2)	(1)	-
Total	(62)	10	(72)	(18)		(15)	(3)	-

Where:

$$C = A - B$$

$$D = C \times 25\%$$

And:

$$D = E + F + G$$

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

in £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable financial underperformance in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Costs in the current year have also suffered from contractor productivity issues as Network Rail has reduced the number of delivery partners it uses as part of its framework contracts which has led to some problems managing the workbanks delivered by those contractors not being retained. Going forward, changes in the governance process are expected to help hold the main contractor to account to deliver the work in line with the expected efficiencies. Cost and budgetary pressures has also resulted in a reduction in volumes planned over the control period. However, there is not a proportionate link between reductions in volumes and reductions in cost and so falling volumes leads to an increase in average costs of each remaining job.
- (3) Signalling – signalling FPM has been impacted by projects rolled over from CP4 for which the ORR has not provided any funding, notably the Romford ROC (Regional Operating Centre) project. The delay in completing these project has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination. Also, framework contractor rates were negotiated and agreed at a higher level than the determination assumed. The rates in the determination were based on a modelled, hypothetical unit rate which is not consistent with the actual market position. This has been exacerbated by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned.
- (4) Civils – cost overruns across a number of projects have contributed to the negative Civils FPM this year. Additional Earthworks costs were incurred as a result of completing CP4 projects required to manage the assets in an appropriate manner, No funding was provided by the regulator for this. Also, contractor rates were negotiated and agreed at a higher level than the determination assumed. The rates in the determination were based on a modelled, hypothetical unit rate which is not consistent with the actual market position.
- (5) Buildings – there was a small financial underperformance in the year as contractor prices were higher than the determination assumed. The regulator used a modelled, hypothetical unit rate which is not consistent with the actual market position.
- (6) Electrical power and fixed plant – financial underperformance due to additional investment in energy efficiency programme, which is centrally-managed. Network Rail is planning to invest more than the determination allowances in this area.
- (7) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. Whilst some of these additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Great Eastern Overhead Line Electrification) others, (notably FTN) have emerged in 2014/15. As not all of these CP4 rollover projects have finished not all of the expected FPM has been recognised in 2014/15. As these projects complete in the next couple of years additional negative FPM will crystallise later in the control period.

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

in £m 2014-15 prices unless stated

			2014-15				
	Variance to	Variance due	Deferral/	Other		Financial out/	
	adjusted PR13	to ECAM	(acceleration)	adjustments	Final Variance	(under)	
		adjustment	of work			performance	
Other Enhancements	(42)	-	(42)	-	-	-	-
Total	(42)	-	(42)	-	-	-	-

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

in £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) No FPM has been recognised on enhancement projects in Anglia for 2014/15.

in £m 2014-15 prices unless stated

Where: $C = B - A$

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

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

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

in £m 2014-15 prices unless stated

Notes:

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

Statement 6a: Analysis of income, Anglia

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	379	377	2	292
Franchised track access income				
Fixed charges	34	34	-	104
Variable charges				
Variable usage charge	13	13	-	14
Traction electricity charges	42	37	5	41
Electrification asset usage charge	3	3	-	2
Capacity charge	24	25	(1)	13
Station usage charge	-	-	-	-
Schedule 4 net income	17	17	-	8
Schedule 8 net income	-	-	-	-
Total Variable charges income	99	95	4	78
Total franchised track access income	133	129	4	182
Total franchised track access and grant income	512	506	6	474
Other single till income				
Property income	50	48	2	77
Freight income	6	5	1	6
Open access income	3	2	1	4
Stations income	12	13	(1)	14
Facility and financing charges	2	2	-	1
Depots Income	5	5	-	5
Other income	-	-	-	-
Total other single till income	78	75	3	107
Total income	590	581	9	581

Statement 6a: Analysis of income, Anglia – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under (Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5d).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Fixed charges – fixed charge income was the same as the determination. The decrease in fixed charges compared to 2013/14 is partly offset by higher grant income received from government.
- (4) Variable usage charge - this matched the determination and was only very slightly lower than the previous year. Changes to the prior year are mostly due to changes in the rates that Network Rail charge under the regulatory framework. ORR implemented a change in these rates from the start of control period 5.
- (5) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is higher than the determination due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. However this is balanced by an overspend on electricity costs (as shown in Statement 7a). Traction electricity charges are slightly higher than the previous year.
- (6) Electrification asset usage charge – income is in line with the determination but higher than the previous year due to changes in the regulatory regime this control period.
- (7) Capacity charge - this is in line with the determination but noticeably higher than the previous year. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore the yearly figure cannot be compared to 2013/14 in a meaningful way.

Statement 6a: Analysis of income, Anglia – continued

in £m 2014-15 prices unless stated

- (8) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is significantly higher than the 2013/14 value. This is due to changes in the Schedule 4 compensation rates in control period 5 compared to control period 4, which also results in changes in the access charge supplement payable by operators.
- (9) Property income – this is higher than the determination mainly due to higher property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Property income is much lower than the previous year which included substantial property disposals in the route.

Statement 6b: Analysis of other single till income, Anglia (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property Income				
Property rental	40	45	(5)	36
Property sales	10	6	4	41
Adjustment for commercial opex	-	(3)	3	-
Total property income	50	48	2	77
Freight income				
Freight variable usage charge	5	4	1	4
Freight traction electricity charges	1	1	-	1
Freight electrification asset usage charge	-	-	-	-
Freight capacity charge	-	-	-	1
Freight only line charge	-	-	-	-
Freight specific charge	-	-	-	-
Freight other income	-	-	-	-
Freight coal spillage charge	-	-	-	-
Total freight income	6	5	1	6
Open access income				
Variable usage charge income	1	-	1	-
Open access capacity charge	-	-	-	-
Open access traction electricity charges	-	-	-	2
Fixed contractual contribution	2	2	-	2
Open access other income	-	-	-	-
Total open access income	3	2	1	4
Stations income				
Managed stations income				
Long term charge	4	4	-	3
Qualifying expenditure	3	3	-	3
Total managed stations income	7	7	-	6
Franchised stations income				
Long term charge	4	5	(1)	6
Stations lease income	1	1	-	2
Total franchised stations income	5	6	(1)	8
Total stations income	12	13	(1)	14
Facility and financing charges				
Facility charges	2	2	-	1
Crossrail finance charge	-	-	-	-
Welsh Valleys finance charge	-	-	-	-
Total facility and financing charges	2	2	-	1
Depots income	5	5	-	5
Other	-	-	-	-
Total other single till income	78	75	3	107

Statement 6b: Analysis of income (unaudited), Anglia

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	23	23	-	23
Signalling shift managers	2	1	(1)	2
Local operations managers	2	2	-	-
Controllers	4	3	(1)	3
Electrical control room operators	1	1	-	1
Total signaller expenditure	32	30	(2)	29
Non-signaller expenditure				
Mobile operations managers	6	3	(3)	5
Managed stations	3	4	1	2
Performance	3	1	(2)	2
Customer relationship executives	(1)	1	2	(1)
Route enhancement managers	-	-	-	-
Weather	-	2	2	-
Other	13	1	(12)	2
Operations delivery	4	-	(4)	4
HQ - Operations services	-	-	-	-
HQ - Performance and planning	-	-	-	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	1	3	2	4
Other operating income	(13)	(2)	11	-
Total non-signaller expenditure	16	13	(3)	18
Total network operations expenditure	48	43	(5)	47
Support costs				
Core support costs				
Human resources	4	6	2	6
Information management	6	7	1	7
Government and corporate affairs	1	2	1	2
Group strategy	1	1	-	1
Finance	2	3	1	2
Business services	1	1	-	1
Accommodation	14	12	(2)	8
Utilities	4	4	-	4
Insurance	3	5	2	3
Legal and inquiry	1	1	-	-
Safety and sustainable development	2	1	(1)	1
Strategic sourcing	1	1	-	1
Business change	-	-	-	-
Other corporate functions	2	-	(2)	3
Core support costs	42	44	2	39
Other support costs				
Asset management services	3	3	-	4
Network Rail telecoms	5	4	(1)	5
National delivery service	-	-	-	-
Infrastructure Projects	(2)	-	2	(5)
Commercial property	(1)	-	1	2
Group costs	(5)	(1)	4	14
Total other support costs	-	6	6	20
Total support costs	42	50	8	59
Traction electricity, industry costs and rates				
Traction electricity	45	38	(7)	44
Business rates	15	15	-	14
British transport police costs	8	7	(1)	7
RSSB costs	1	1	-	1
ORR licence fee and railway safety levy	2	2	-	2
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
Total traction electricity, industry costs and rates	71	63	(8)	68
Total network operations expenditure, support costs, traction electricity, industry costs and rates	161	156	(5)	174

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are over 10 per cent higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 a lower Network Operations cost base than they did as efficiencies that were expected to occur in the final years of CP4 did not materialise. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, there have been delays implementing efficiency strategies in the current year. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that ceteris paribus, costs would exceed the regulatory allowance for 2014/15. Costs are marginally higher than the previous year, mostly as a result of pay awards being higher than inflation.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (5) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.

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

in £m 2014-15 prices unless stated

- (6) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher electricity charges and British Transport Police costs.
- (7) Traction electricity – costs are in line with the prior year but significantly higher than the determination. Network Rail has limited ability to influence traction electricity costs which are driven by the prevailing market rates of these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in the financial year are higher than the determination due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also higher than the Regulator assumed.
- (8) Business rates – costs are in line with the previous year but lower than the determination assumed. The ORR assumed a different allocation of Business rates to the Anglia route than is the case. Business rates are allocated to different rates in line with individual property location and so provide a more accurate basis than the regulator’s assumptions. Network Rail expects to be have to forego these savings in Anglia through the Opex memorandum account mechanism (refer to Statement 10).
- (9) British Transport Police (BTP) costs - costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were higher than the regulator assumed when preparing their CP5 determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Anglia (unaudited)

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	22	25
Operations and customer services non-signalling	-	-
MOMS	2	6
Control	4	5
Planning & Performance Staff Costs	3	4
Managed Stations Staff Costs	2	1
Operations Management Staff Costs	2	1
Other	12	6
Total operations & customer services costs	47	48
Total Network Operations	47	48
Support		
Human resources		
Functional support	3	1
Training (inc Westwood)	2	1
Graduates	-	-
Apprenticeships	1	1
Other	-	1
Total human resources	6	4
Information management		
Support	1	1
Projects	-	-
Licences	-	-
Business operations	6	5
Other	-	-
Total information management	7	6
Finance	2	2
Business Change	-	-
Contracts & procurement	1	-
Strategic Sourcing (National Supply Chain)	-	1
Planning & development	1	1
Safety & compliance	1	-
Other corporate services	5	1
Commercial property	10	13
Infrastructure Projects	(5)	(2)
Route Services	1	2
Asset management & Engineering/Asset heads	14	-
National delivery service	-	-
Utilities	-	4
Network Rail telecoms	-	5
Digital Railway	-	2
Safety Technical & Engineering	-	4
Government & Corporate Affairs	-	1
Business Services	-	1
Route Asset Management	-	(2)
Legal and inquiry	-	1
Group/central	-	-
Pensions	-	-
Insurance	3	3
Redundancy/reorganisation costs	6	2
Staff incentives/Bonus Reduction	-	(2)
Accommodation & Support Recharges	-	(3)
ORR financial penalty	7	(2)
Other	-	-
Total group/central costs	16	(2)
Total support	59	42
Total network operations and support costs	106	90

Statement 7b: Analysis of network operations expenditure and support costs by activity, Anglia (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	60	42	(18)	61
Signalling	22	19	(3)	17
Civils	12	12	-	9
Buildings	1	3	2	5
Electrical power and fixed plant	13	12	(1)	7
Telecoms	2	2	-	2
Other network operations	16	16	-	11
Asset management services	3	4	1	3
National Delivery Service	(1)	4	5	1
Property	3	-	(3)	1
Group	(2)	(2)	-	(2)
Total maintenance expenditure	129	112	(17)	115

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

in £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are higher than the determination and the prior year. The main contributor to this was Network Rail's decision to reduce the level of incentive payouts to senior management and instead, re-invest this money into programmes to improve the safety and performance of the network. A significant amount was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Therefore, Network Rail were planning to have higher track maintenance costs than the PR13 even if National Delivery Services were not off-charged. Costs are in line with the previous year, which also included a full off-charge of National Delivery Services activities, despite an increase in network traffic (and so wear and tear on the network) compared to CP4.
- (4) Signalling – costs are higher than the determination and the previous year. One of the notable contributing factors has been the delay in implementing renewals programmes, necessitating greater maintenance costs to sustain the quality of the asset. Also, Network Rail has increased the level of maintenance to try to reduce the number of signalling failures and so improve train performance, reducing passenger delays and Schedule 8 costs. Network Rail's measure of signalling reliability has been higher than target for most of the year, suggesting that this approach has been successful.
- (5) Civils – costs were in line with the determination. The majority of civils expenditure is on Reactive maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are higher than the prior year mostly due to a higher level of Reactive Maintenance required this year compared to 2013/14.

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

in £m 2014-15 prices unless stated

- (6) Buildings – there were no maintenance costs for Buildings reported in last year's Regulatory financial statements as the regulator chose to fund reactive maintenance works through Renewals last control period whereas this year, to be consistent with International Accounting Standards (IAS), these costs are accounted for as maintenance. The prior year has been restated to reflect these changes and provide a like-for-like comparison. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance between the actual and PR13 in the year is all due to differences in the reactive maintenance spend which has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (7) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team. Costs are noticeably higher than 2013/14 which is a combination of the investment in the programmes noted above and a significant increase in the asset management organisation within the routes. As part of the move towards a devolved, more accountable railway the capabilities and responsibilities of the local asset management teams have increased significantly since 2013/14, as planned in Network Rail's plans for CP5, and reflected in the expenditure allowances set by the regulator.
- (8) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The small credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided.

Statement 9a: Summary analysis of renewals expenditure, Anglia

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	77	60	(17)	82
Signalling	53	41	(12)	19
Civils	34	24	(10)	59
Buildings	9	9	-	9
Electrical power and fixed plant	30	42	12	43
Telecoms	9	9	-	17
Wheeled plant and machinery	7	16	9	4
Information Technology	13	7	(6)	10
Property	3	4	1	4
Other renewals	22	(17)	(39)	24
Total renewals expenditure	257	195	(62)	271

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

in £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – track costs are higher than the regulator assumed. This is a combination of accelerating volumes and higher than expected underlying costs. Network Rail's planned expenditure this year expected an overspend of more than £15m on a like-for-like basis. This was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Costs in the current year have also suffered from contractor productivity issues as Network Rail has reduced the number of delivery partners it uses as part of its framework contracts which has led to some problems managing the workbanks delivered by those contractors not being retained. Going forward, changes in the governance process are expected to help hold the main contractor to account to deliver the work in line with the expected efficiencies. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Expenditure was lower than the previous year with the largest contribution coming from lower volumes delivered in the current year.
- (3) Signalling – overall, expenditure was higher than the determination expected. There were extra costs incurred from completing some control period 4 projects for which the regulator has not provided any funding, notably ROC (Regional Operating Centre) project at Romford. Completion of the ROC projects are fundamental to the successful implementation of the Network Operating Strategy which is supposed to generate long-term operational savings and performance improvements through rationalising the number of signalling boxes Network Rail uses. Also, framework contractor rates were negotiated and agreed at a higher level than the determination assumed. The rates in the determination were based on a modelled, hypothetical unit rate which is not consistent with the actual market position. This has been exacerbated by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).

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

in £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spend more on civils this year than the regulatory assumption. Earthworks expenditure is higher than the regulator's assumption due to increased amounts of emergency works. The extreme weather in 2013/14 impacted upon the railway infrastructure requiring remedial costs which have been recognised in the current year.. Expenditure is noticeably lower than the previous year. In CP4 Government provided some additional funds for accelerated civils expenditure as part of a fiscal stimulus package for the economy. In addition, the extreme weather in 2013/14 necessitated a great deal of emergency works to be carried out
- (5) Buildings – whilst overall expenditure in the year was in line with the determination financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (6) Electrical power and fixed plant – expenditure in the year was noticeable lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant and SCADA as Network Rail seeks to find optimal delivery strategies for these programmes. The SCADA activity planned for CP4 did not materialise and so ORR has provided a rollover of funding for this programme (the costs are included in the CP4 rollover category) but delays in design have meant that the CP4 element of the funding has not yet been exhausted, much less the PR13 allowances. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (7) Telecoms – expenditure in the year was slightly below the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. The largest contributor to the decrease compared to the prior year is FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements.
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken.
- (9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.

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

in £m 2014-15 prices unless stated

(10) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, although there has been spend on ORBIS this year, as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
- c. Small plant – this is less than half of the amount in the regulator's determination which is consistent with the level of slower than assumed delivery for Wheeled plant and machinery and the fixed plant element of the Electrical power and fixed plant category.
- d. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- e. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes (notably Great Eastern Overhead Line Electrification programme). Expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

Statement 9b: Detailed analysis of renewals expenditure, Anglia (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	28	22	(6)
High output renewal	8	4	(4)
Plain line refurbishment	2	-	(2)
S&C renewal	32	26	(6)
S&C refurbishment	2	4	2
Track non-volume	2	4	2
Off track	3	-	(3)
Total track	77	60	(17)
Signalling			
Full conventional resignalling	7	1	(6)
Modular resignalling	-	9	9
ERTMS resignalling	-	-	-
Partial conventional resignalling	-	2	2
Targeted component renewal	-	-	-
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	-	-	-
Operating strategy other capital expenditure	37	14	(23)
Level crossings	6	3	(3)
Minor works	3	8	5
Centrally managed costs	-	4	4
Total signalling	53	41	(12)
Civils			
Underbridges	14	11	(3)
Overbridges	1	4	3
Bridgeguard 3	-	-	-
Major structures	4	-	(4)
Tunnels	-	-	-
Other assets	1	2	1
Structures other	1	1	-
Earthworks	14	6	(8)
Other	(1)	-	1
Total civils	34	24	(10)
Buildings			
Managed stations	1	2	1
Franchised stations	3	4	1
Light maint depots	1	1	-
Depot plant	2	1	(1)
Lineside buildings	1	1	-
MDU buildings	1	-	(1)
NDS depots	-	-	-
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	9	9	-

Statement 9b: Detailed analysis of renewals expenditure, Anglia (unaudited) - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	-	1	1
Overhead Line	24	28	4
DC distribution	-	-	-
Conductor rail	-	-	-
SCADA	-	3	3
Energy efficiency	2	1	(1)
System capability / capacity	-	-	-
Other electrical power	2	2	-
Fixed plant and rail heating	2	7	5
Total electrical power and plant	30	42	12
Telecoms			
Operational communications	2	6	4
Network	1	1	-
SISS	-	-	-
Projects and other	-	-	-
Non-route capital expenditure	6	2	(4)
Total telecoms	9	9	-
Wheeled plant and machinery			
High output	3	8	5
Incident response	-	-	-
Infrastructure monitoring	-	-	-
Intervention	1	3	2
Materials delivery	2	-	(2)
On track plant	-	-	-
Seasonal	-	3	3
Locomotives	-	-	-
Fleet support plant	-	1	1
Road vehicles	1	1	-
S&C delivery	-	-	-
Total wheeled plant and machinery	7	16	9
Information Technology			
IM delivered renewals	12	7	(5)
Traffic management	1	-	(1)
Total information technology	13	7	(6)
Property			
MDUs/offices	3	3	-
Commercial estate	-	1	1
Corporate services	-	-	-
Total property	3	4	1
Other renewals			
Asset information strategy	-	6	6
Intelligent infrastructure	1	1	-
Faster isolations	-	4	4
LOWS	-	-	-
Small plant	-	1	1
Research and development	-	-	-
Phasing overlay	-	(29)	(29)
Engineering innovation fund	-	-	-
CP4 rollover	21	-	(21)
Other	-	-	-
West Coast	-	-	-
Total other renewals	22	(17)	(39)
Total renewals	257	195	(62)

Statement 9b: Detailed analysis of renewals expenditure, Anglia (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Anglia

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	19	15	(4)	17
Access charge supplement Income	(17)	(17)	-	(8)
Net (income)/cost	2	(2)	(4)	9
Schedule 8				
Performance element income	(1)	-	1	-
Performance element costs	11	-	(11)	4
Access charge supplement Income	-	-	-	-
Net (income)/cost	10	-	(10)	4

B) Opex memorandum account

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

Statement 10: Other information, Anglia – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs were higher than the regulator assumed which was partly due to delivering more renewals volumes than the regulator assumed. This acceleration has been classified within the Variances in volume of work column. The remaining variance is due to underperformance as possession costs were higher than planned. A significant contributor was the Colchester S&C renewal project where a planned shuttle service to Liverpool Street could not run, resulting in higher costs. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the in year cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2014/15. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2014/15 unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the year, with the majority of delay minutes being associated with infrastructure failures. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the in year cost cannot be compared to the 2013/14 number in a meaningful way.

Statement 12: Volume incentives, Anglia

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year	2014-15 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	-	-	28	28	0.2%	1.46	pence per passenger train mile
Passenger farebox (millions)	5	1	1,044	985	2.3%	2.5%	% of additional farebox revenue
Freight train miles (millions)	-	-	2	2	2.3%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	-	-	2,260	2,130	3.3%	2.50	pence per freight 1,000 gross tonne mile
Total volume incentive	5	1					

The cumulative volume incentive is determined by the following calc $[At - (Bt - 1 \times (1 + Ct))] \times D \times 5$

Where:

At = Actual in year quantity

B = 2014-15 baseline

Ct = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Anglia – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £1m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Anglia

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

		Actual					Network Rail Business Plan		Difference to Business Plan		
		In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost	
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	3,794	630	2,390	-	2,390	669	-	39	n/a
MNT005	Plain Line Stoneblowing (km)	km	1,953	149	291	-	291	319	-	170	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	175	2,326	406	-	406	582	-	(1,744)	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	329	580	191	-	191	895	-	315	n/a
MNT007	S&C Tamping (point end)	Point end	4,278	126	539	-	539	219	-	93	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	284	2,211	628	-	628	755	-	(1,456)	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	99	11,363	1,120	-	1,120	3,988	-	(7,375)	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	548	248	136	-	136	151	-	(97)	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	4	345,677	1,399	-	1,399	55,224	-	(290,453)	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	14	36,195	497	-	497	58,849	-	22,654	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	21	129,686	2,685	-	2,685	56,495	-	(73,191)	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	11	29,033	332	-	332	18,682	-	(10,351)	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	14,731	52	766	-	766	30	-	(22)	n/a
MNT122	S&C Maintenance (point end)	Point end	34	35,409	1,187	-	1,187	31,347	-	(4,062)	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	11,265	49	552	-	552	39	-	(10)	n/a
MNT124	S&C Stoneblowing (point end)	Point end	11,116	43	478	-	478	119	-	76	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	-	-	-	-	849	-	849	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	-	-	-	-	415	-	415	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	19	35,402	682	-	682	23,393	-	(12,009)	n/a
MNT073	Drainage (Yard)	Yard	12	50,144	581	-	581	145,084	-	94,940	n/a
MNT075	LX Management - Off Track (Each)	Each	150	3,753	562	-	562	1,118	-	(2,635)	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	35	8,147	289	-	289	1,417	-	(6,730)	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	455	11	5	-	5	1,273	-	1,262	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	1	1,588,841	2,091	-	2,091	160,127	-	(1,428,714)	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	90	725	65	-	65	329	-	(396)	n/a
N/A	Non volume track and off-track maintenance	£m				42,562	42,562				n/a
Total track and off-track maintenance					17,872	42,562	60,434		41,567		(18,867)
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				22,146	22,146			-	n/a
Total signalling maintenance						22,146	22,146		18,878		(3,268)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Anglia - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	1,418	-	-	-	1,641	-	223	n/a
MNT221	Detailed Examinations	No.	-	663	-	-	-	696	-	33	n/a
MNT222	Underwater Examination	No.	-	335	-	-	-	265	-	(70)	n/a
MNT223	Ancillary Structure examination	No. detailed	-	10	-	-	-	9	-	(1)	n/a
MNT224	Hidden critical element examinations	No.	-	56	-	-	-	76	-	20	n/a
MNT225	Load carrying assessment	No. spans	-	700	-	-	-	1,161	-	461	n/a
MNT226a	Visual Examinations (Civils)	No.	-	3,963	-	-	-	3,461	-	(502)	n/a
N/A	Non volume civils maintenance	£m				12,109	12,109			-	n/a
Total civils maintenance						12,109	12,109		11,958		(151)
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	751	-	-	-	789	-	38	n/a
MNT227	5 yearly examinations	Each	-	122	-	-	-	136	-	14	n/a
N/A	Non volume buildings maintenance	£m				1,272	1,272			-	n/a
Total buildings maintenance						1,272	1,272		3,169		1,897
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	-	-	-	-	-	40	-	40	n/a
MNT209	Maintain DC Traction Power Supplies	Each	84	2,242	189	-	189	35	-	(2,207)	n/a
MNT211	Maintain OHL Components	Various	48	90,016	4,279	-	4,279	32,400	-	(57,616)	n/a
MNT212	Maintain Points Heating	Each	47	13,264	624	-	624	14,454	-	1,190	n/a
MNT213	Maintain Signalling Power Supplies	Number	105	2,212	232	-	232	1,542	-	(670)	n/a
Non volume electrical power and fixed plant maintenance											
N/A		£m				7,858	7,858			-	n/a
Total electrical power and fixed plant maintenance						5,324	7,858	13,182	12,184		(998)
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				1,840	1,840			-	n/a
Total telecoms maintenance						1,840	1,840		2,063		223
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				16,210	16,210			-	n/a
Total other network operations maintenance						16,210	16,210		16,078		(132)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Anglia - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				2,871	2,871			-	n/a
Total asset management services maintenance						2,871	2,871		3,471		600
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(510)	(510)			-	n/a
Total national delivery service maintenance						(510)	(510)		4,403		4,913
Property maintenance											
N/A	Non volume property maintenance	£m				1,749	1,749			-	n/a
Total property maintenance						1,749	1,749		460		(1,289)
Group maintenance											
N/A	Non volume group maintenance	£m				(1,918)	(1,918)			-	n/a
Total group maintenance						(1,918)	(1,918)		(1,724)		194
Total							129,385		112,507		(16,878)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Anglia – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	ckm	613	62	38	-	38	451	82	37	-	37	(162)	20	(1)	-	(1)
	Conventional		800	35	28	-	28	577	52	30	-	30	(223)	17	2	-	2
	High Output		471	17	8	-	8	500	14	7	-	7	29	(3)	(1)	-	(1)
	Refurbishment		200	10	2	-	2	-	16	-	-	-	(200)	6	(2)	-	(2)
	S&C	point ends	472	72	34	-	34	265	132	35	-	35	(207)	60	1	-	1
	Track Drainage		-	360	-	-	-	1	1,280	1	-	1	1	920	1	-	1
	Renewal	lm	-	-	-	-	-	-	1,254	-	-	-	-	1,254	-	-	-
	Refurbishment	lm	-	360	-	-	-	-	-	-	-	-	-	(360)	-	-	-
	New Build	lm	-	-	-	-	-	-	26	-	-	-	-	26	-	-	-
	Fencing		17	116	2	-	2	38	52	2	-	2	21	(64)	-	-	-
	Slab Track		-	-	-	-	-	(1)	-	-	1	1	(1)	-	-	1	1
	Off track		-	-	-	3	3	(9)	-	-	-	-	(9)	-	-	(3)	(3)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					74	3	77			75	1	76			1	(2)	(1)
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	7	n/a	n/a	n/a	-	13	n/a	n/a	n/a	-	6
	Full conventional resignalling	SEU	-	-	7	-	7	-	-	1	-	1	-	-	(6)	-	(6)
	Modular resignalling	SEU	-	-	-	-	-	-	-	10	-	10	-	-	10	-	10
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	-	-	-	-	-	-	2	-	2	-	-	2	-	2
	Targeted component renewal	SEU	-	7	-	-	-	-	-	-	-	-	-	(7)	-	-	-
	Level crossings	No.	-	-	6	-	6	-	-	3	-	3	-	-	(3)	-	(3)
	Signalling other		-	-	-	40	40	-	-	-	24	24	-	-	-	(16)	(16)
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Operating strategy other capex		n/a	n/a	n/a	37	37	n/a	n/a	n/a	16	16	n/a	n/a	n/a	(21)	(21)
	Minor works		n/a	n/a	n/a	3	3	n/a	n/a	n/a	5	5	n/a	n/a	n/a	2	2
	Centrally managed costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					13	40	53			16	24	40			3	(16)	(13)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	19	n/a	n/a	n/a	-	21	n/a	n/a	n/a	-	2
	Underbridges	m2	3	4,257	14	-	14	1	3,092	13	-	13	(2)	(1,165)	(1)	-	(1)
	Overbridges (incl BG3)	m2	1	1,413	1	-	1	3	722	8	-	8	3	(691)	7	-	7
	Tunnels	m2	-	-	-	-	-	1	-	-	-	-	1	-	-	-	-
	Major structures	m2	-	-	-	4	4	-	-	-	-	-	-	-	-	(4)	(4)
	Other structures assets		n/a	n/a	n/a	-	1	n/a	n/a	n/a	-	2	n/a	n/a	n/a	-	1
	Culverts	m2	1	996	1	-	1	10	98	1	-	1	9	(898)	-	-	-
	Footbridges	m2	-	178	-	-	-	3	288	1	-	1	3	110	1	-	1
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m2	-	173	-	-	-	-	160	-	-	-	-	(13)	-	-	-
	Earthworks	5-chain	58	208	12	-	12	29	211	5	-	5	(28)	3	(7)	-	(7)
	EW Drainage		1	2,822	2	-	2	-	1,719	2	-	2	(1)	(1,103)	-	-	-
	Renewal	lm	-	-	-	-	-	-	760	-	-	-	-	760	-	-	-
	Refurbishment	lm	-	491	-	-	-	-	180	-	-	-	-	(311)	-	-	-
	Maintenance	lm	-	227	-	-	-	-	760	-	-	-	-	533	-	-	-
	New Build	lm	-	2,104	-	-	-	-	19	-	-	-	-	(2,085)	-	-	-
	Structures other		-	-	-	1	1	-	-	-	-	-	-	n/a	-	(1)	(1)
	Other		-	-	-	(1)	(1)	-	-	-	(4)	(4)	-	n/a	-	(3)	(3)
	Total				30	4	34			30	(4)	26			-	(8)	(8)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	3	n/a	n/a	n/a	-	6	n/a	n/a	n/a	-	3
	Footbridges	m2	-	41	-	-	-	-	656	n/a	n/a	-	n/a	615	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	-	150	n/a	n/a	-	n/a	150	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	-	2,763	n/a	n/a	-	n/a	2,763	n/a	n/a	-
	Buildings	m2	-	-	1	-	1	-	401	n/a	n/a	-	n/a	401	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	2	2	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	1	n/a	n/a	n/a	-	3	n/a	n/a	n/a	n/a	2
	Footbridges	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	-	1,600	n/a	n/a	-	n/a	1,600	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	66	-	-	-	-	1,095	n/a	n/a	-	n/a	1,029	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		-	-	1	-	1	-	1,101	-	-	2	n/a	1,101	n/a	n/a	1
	Buildings	m2	-	-	-	-	-	-	1,101	n/a	n/a	-	n/a	1,101	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lineside Buildings	m2	-	-	1	-	1	-	-	n/a	n/a	2	n/a	-	n/a	n/a	1
	MDU Buildings	m2	-	-	1	-	1	-	-	n/a	n/a	1	n/a	-	n/a	n/a	-
	Depot Plant		-	-	-	2	2	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	(1)
	NDS Depots		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(3)	n/a	n/a	n/a	n/a	(3)
	Total				4	5	9			-	-	12			-	-	3

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	24	-	-	-	-	28	-	-	-	-	4
	Overhead Line Equipment (OLE) Re-wiring	wire runs	875	16	14	-	14	-	10	n/a	n/a	-	n/a	(6)	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	90	78	7	-	7	-	100	n/a	n/a	-	n/a	22	n/a	n/a	-
	Other		-	-	-	3	3	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	AC distribution		-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	-	4	-	-	-	-	-	n/a	n/a	-	n/a	(4)	n/a	n/a	-
	LV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Transformer Rectifiers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	2	-	-	n/a	n/a	7	n/a	n/a	n/a	n/a	5
	Signalling Power Cable Renewal	km	-	-	-	-	-	-	18	n/a	n/a	-	n/a	18	n/a	n/a	-
	Principle Supply Point Renewal	No.	500	2	1	-	1	-	9	n/a	n/a	-	n/a	7	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	31	32	1	-	1	-	9	n/a	n/a	-	n/a	(23)	n/a	n/a	(1)
	SCADA		-	-	-	-	-	-	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	Energy efficiency		-	-	-	2	2	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(2)
	System capability / capacity		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other electrical power		-	-	-	1	1	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					23	7	30			-	-	40			-	-	10

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	-	-	-	-	-	-	n/a	n/a	n/a	n/a	-
	Customer Information Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Address	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	CCTV	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Operational Comms		-	-	-	-	2	-	-	n/a	n/a	5	n/a	n/a	n/a	n/a	3
	PABX Concentrator	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Processor Controlled Concentrator	Lines	-	-	-	-	-	-	1,300	n/a	n/a	-	n/a	1,300	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Emergency Telephone System	No.	-	-	1	-	1	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	-
	Projects and other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Non route capex		n/a	n/a	n/a	6	6	n/a	n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	(2)
	Total				2	7	9			-	-	10			-	-	1

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

in £m 2014-15 prices unless stated

		2014-15																
		Actual					Network Rail Business Plan					Difference to Business Plan						
					Other non-volume costs				Other non-volume costs							Other non-volume costs		
Asset	Activity type	Unit	Unit cost	Volume	Unit cost x volume	Total Cost	Unit cost	Volume	Unit cost x volume	Total Cost	Unit cost	Volume	Unit cost x volume	Total Cost	Unit cost	Volume	Unit cost x volume	Total Cost
			£k/unit	unit	£m	£m	£k/unit	unit	£m	£m	£k/unit	unit	£m	£m	£k/unit	unit	£m	£m
Wheeled plant and machinery	High output		n/a	n/a	n/a	3		n/a	n/a	8		n/a	n/a	8		n/a	n/a	5
	Incident response		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
	Infrastructure monitoring		n/a	n/a	n/a	-		n/a	n/a	1		n/a	n/a	1		n/a	n/a	1
	Intervention		n/a	n/a	n/a	1		n/a	n/a	3		n/a	n/a	3		n/a	n/a	2
	Materials delivery		n/a	n/a	n/a	2		n/a	n/a	-		n/a	n/a	-		n/a	n/a	(2)
	On track plant		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
	Seasonal		n/a	n/a	n/a	-		n/a	n/a	3		n/a	n/a	3		n/a	n/a	3
	Locomotives		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
	Fleet support plant		n/a	n/a	n/a	-		n/a	n/a	1		n/a	n/a	1		n/a	n/a	1
	Road vehicles		n/a	n/a	n/a	1		n/a	n/a	-		n/a	n/a	-		n/a	n/a	(1)
	S&C delivery		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
Other		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-	
Total					-	7			-	16			16			-	9	
IT			-	-	-	-		-	-	-		-	-	-		-	-	-
	IM delivered renewals		n/a	n/a	n/a	12		n/a	n/a	12		n/a	n/a	12		n/a	n/a	-
	Traffic management		n/a	n/a	n/a	-		n/a	n/a	2		n/a	n/a	2		n/a	n/a	1
	Other		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
Total					-	12			-	14			14			-	2	
Property																		
	MDUs/offices		n/a	n/a	n/a	3		n/a	n/a	2		n/a	n/a	2		n/a	n/a	(1)
	Commercial estate		n/a	n/a	n/a	-		n/a	n/a	1		n/a	n/a	1		n/a	n/a	1
	Corporate services		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
	Other		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
Total					-	3			-	3			3			-	-	
Other renewals																		
	Asset information strategy		n/a	n/a	n/a	-		n/a	n/a	6		n/a	n/a	6		n/a	n/a	6
	Intelligent infrastructure		n/a	n/a	n/a	1		n/a	n/a	1		n/a	n/a	1		n/a	n/a	-
	Faster isolations		n/a	n/a	n/a	-		n/a	n/a	3		n/a	n/a	3		n/a	n/a	3
	LOWS		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
	Small plant		n/a	n/a	n/a	-		n/a	n/a	1		n/a	n/a	1		n/a	n/a	1
	Research and development		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
	Phasing overlay		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
	Engineering Innovation Fund		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
	West Coast		n/a	n/a	n/a	-		n/a	n/a	-		n/a	n/a	-		n/a	n/a	-
	CP4 Rollover		n/a	n/a	n/a	21		n/a	n/a	-		n/a	n/a	-		n/a	n/a	(21)
	Other		n/a	n/a	n/a	-		n/a	n/a	3		n/a	n/a	3		n/a	n/a	3
Total					-	22			-	14			14			-	(8)	
Total Renewals					-	-	257	-	-	251			-	-	(6)			

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

in £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statement 9a.
- (3) Track - Conventional - the reduced outturn in Conventional works is predominantly driven by a continued reduction in activity across complete renewal and re-railing portfolio. Much of the adverse relates to category 2 re-railing works. Works are now being re-planned and mitigation works will be put in place as necessary to safeguard asset condition in the interim.
- (4) Track - Refurbishment - Refurbishment workbank was down from plan due to reprioritisation of the refurbishment workbank to safeguard the remainder of the workbank due to stretched resource and access availability and deliverability across the route Works Delivery teams.
- (5) Track - Switches & Crossings - Switches & Crossings are lower than plan due to combination of planning and access failures around Witham and Ardleigh. Also, S&C refurbishment volumes were lower than planned due to insufficient resource. Staff training is currently taking place to remedy this going forward.
- (6) Track – Drainage – lower volumes have been delivered this year as the workbank has been re-phased over the control period to optimise delivery.
- (7) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (8) Signalling - Targeted Component Renewal - the plan assumed no volumes would be recognised in 2014/15 but volumes were recognised from additional schemes undertaken (notably from the completion of CP4 projects).
- (9) Structures - Underbridges – volumes delivered were higher than plan due to the continuation of CP4 programmes relating to spandrel walls and scour protection which have been incorporated into the CP5 plan.
- (10) Structures - Overbridges - volumes delivered were higher than plan due to bringing forward activity originally scheduled for 2015/16 into the current year in order to tie in with the Gospel Oak to Barking blockade, thus reducing the level of possessions required and achieving possession management savings.
- (11) Structures – Culverts – volumes were higher than planned as activity in the control period was re-profiled resulting in some jobs being accelerated from future years to 2014/15.
- (12) Structures - Footbridges - Footbridge volumes is less than Network Rail's published CP5 Business Plan. Works in Anglia have been re-programmed into later years of the control period due to design issues.
- (13) Earthwork drainage – total volume of works are higher than plan in refurbishment and new build but down in renewal and maintenance. The increased volumes are mostly due to extra work relating to CP4 enhanced spend categories that were scheduled for completion in 2013/14 but were not finished and, instead, recognised in the current year.

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

in £m 2014-15 prices unless stated

- (14) Buildings - Franchised Stations – volumes are down across the whole Franchised Stations portfolio. This is due to work being deferred to later in the control period. This was impacted by franchise transition, resulting in additional consultation and delays in decisions and so activity.
- (15) Buildings - Managed Stations - volumes are down across the whole Managed Stations portfolio. This is due to work being deferred to later in the control period. Activity at Liverpool Street was de-scoped following targeted works in CP4 supporting asset condition, which has led to a slight delay the implementation programme for further works in 2014/15.
- (16) Electrification - OLE Rewiring - OLE wire runs volume has increased from Network Rail's published CP5 Business Plan. This is predominantly due to strong delivery on the GE programme, where the delivery methodology has been enhanced to expedite progress.
- (17) Electrification – DC Distribution – 4km of unbudgeted HV Cable volume has been delivered, which is due to catch-up delivery of the North London Line Feeder renewals programme which was originally planned for CP4 completion.
- (18) Electrification – Signalling power cables - Volumes are lower than Network Rail's published CP5 Business Plan due to a re-planning of volumes where various smaller projects have been combined into single works packages to drive efficient delivery and reduce disruption.
- (19) Electrification - Points Heaters - Volumes are above Network Rail's published CP5 Business Plan due to CP4 volumes being delivered in the current year.
- (20) Telecoms - Operational Comms - PABX concentrators volumes are lower than Network Rail's published CP5 Business Plan as they are dependent on large renewal projects which can slip into future years. An example of this was the volumes in London Liverpool Street IECC which have slipped out of this year whilst decisions are made about Romford ROC (Regional Operating Centre) which is a project dependency. Driver Only Operation CCTV volumes are lower than budget due to protracted stakeholder agreement of the requirements specification which has led to slippage into 2015/16.
- (21) Telecoms - Operational Comms – Driver only operation CCTV volumes are lower than Network Rail's published CP5 Business Plan due to protracted stakeholder agreement of the requirements specification.

Statement 1: Summary regulatory financial performance, East Midlands

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	219	218	1	242
Fixed Income	20	20	-	115
Variable Income	60	56	4	52
Other Single Till Income	21	25	(4)	23
Opex memorandum account	2	-	2	-
Total Income	322	319	3	432
Operating expenditure				
Network operations	24	19	(5)	26
Support costs	18	22	4	34
Traction electricity, industry costs and rates	25	20	(5)	18
Network maintenance	64	60	(4)	64
Schedule 4	11	17	6	23
Schedule 8	12	-	(12)	12
Total operating expenditure	154	138	(16)	177
Capital expenditure				
Renewals	153	127	(26)	186
PR13 enhancement expenditure	146	138	(8)	107
Non PR13 enhancement expenditure	8	-	(8)	59
Total capital expenditure	307	265	(42)	352
Other expenditure				
Financing costs	74	87	13	77
Corporation tax (received)/paid	-	-	-	-
Rebates	-	-	-	8
Total other expenditure	74	87	13	85
Total expenditure	535	490	(45)	614

Statement 1: Summary regulatory financial performance, East Midlands – continued

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was in line with the determination. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was higher than the determination due to higher electricity costs that Network Rail could pass onto operators and from additional train paths provided to operators. Higher electricity income is offset by higher Operating expenditure. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is lower than the determination due to lower freight and stations income. Excluding this, income is higher than the determination as set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – there is a minor amount reported this year. This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as delays in implementing efficiency initiatives. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination with the largest contribution coming from higher electricity costs which are largely recovered from operators through income. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination mostly as a result of investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination due to possession planning and execution efficiencies. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Operating expenditure - Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets for the first year of the control period. These variances are set out in more detail in Statement 10.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspend and phasing of activity. These variances are set out in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure is higher than the determination. This is a combination of efficient overspends and re-profiling of programme delivery. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments and is lower than the determination largely as a result of lower inflation than the regulator assumed. This is set out in more detail in Statement 4.

Statement 1: Summary regulatory financial performance, East Midlands – continued

in £m 2014-15 prices unless stated

- (17) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

Statement 2a: RAB - regulatory financial position, East Midlands

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,415	2,415	-
Indexation to 2013-14 prices	64	64	-
Opening RAB for the year (2013-14 prices)	2,479	2,479	-
Indexation for the year	49	49	-
Opening RAB (2014-15 prices)	2,528	2,528	-
Adjustments for the actual capital expenditure outturn in			
CP4	72	-	72
Renewals	141	127	14
PR13 enhancements	145	119	26
Non-PR13 enhancements	8	-	8
Total enhancements	153	119	34
Amortisation	(124)	(124)	-
Adjustments for under-delivery of regulatory outputs	(2)	-	(2)
Closing RAB at 31 March 2015	2,768	2,650	118

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	2,528
Adjustments for the actual capital expenditure outturn in	
CP4	72
Renewals	141
PR13 enhancements	145
Non-PR13 enhancements	8
Total enhancements	153
Amortisation	(124)
Adjustments for under-delivery of regulatory outputs	(2)
Closing RAB	2,768

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

in £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was a combination of re-profiling activity from future years, expenditure rolled over from CP4 (for which the regulator adjusted the renewals allowances) and some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was higher than the regulator assumed. This was due to a re-profiling of CP5 activity and efficient overspends compared to the funding available (the value of which cannot all be logged by to the RAB). The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position. The missed outputs for the RAB this year relate to the estimated impact of missed enhancement milestones with notable contributions from St Pancras to Sheffield line speed improvements programme and the Peak Forest project within the Strategic freight network programme. This is an assessment based on information available but the regulator retains discretion over the final level of adjustment to be made.

Statement 2b: RAB - reconciliation of expenditure, East Midlands

in £m 2014-15 prices unless stated

Total as at 31/03/15

Renewals

Renewals per the PR13 determination 127

Adjustments to the PR13 determination	
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	7
Capitalised financing on CP4 deferrals	-
Other adjustments	-
Capitalised financing on other adjustments	-

Adjusted PR13 determination (renewals) 134

Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(28)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)
Adjustments for efficient overspend	44
Capitalised financing on efficient overspend	1
25% retention of efficient overspend	(11)
Capitalised financing on efficient overspend 25% retention	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing on efficient underspend 25% retention	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments for efficient overspend through spend to save framework	3
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other adjustments	-
Capitalised financing on other adjustments	-

Total Renewals (added to the RAB - see Statement 2a) 141

Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	-
Adjustment for retention of efficient overspend (including spend to save adjustment)	12
Adjustment for retention of efficient underspend	-
Other adjustments	-

Total actual renewals expenditure (see statement 9) 153

Statement 2b: RAB - reconciliation of expenditure, East Midlands - continued

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	119
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	18
Capitalised financing on CP4 deferrals	-
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	-
Capitalised financing on adjustments to DfT funding	-
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (enhancements)	138
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	4
Capitalised financing on acceleration / (deferrals) of expenditure	-
Adjustments for efficient overspend	4
Capitalised financing on efficient overspend	-
25% retention of efficient overspend	(1)
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-
Capitalised financing relating to projects with tailored protocols or fixed price	-
Adjustments for efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	145
Non PR13 Enhancements	-
Non-PR13 enhancements expenditure qualifying for capitalised financing	8
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	-
Capitalised financing on non-PR13 enhancements expenditure	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	-
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	8
Total enhancements (added to the RAB - see statement 2a)	153
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	-
Adjustment for retention of efficient overspend (including spend to save adjustment)	1
Other adjustments (including discretionary investment)	-
Adjustment for retention of efficient underspend	-
Non-PR13 enhancement expenditure	-
Third party funded schemes	8
Other adjustments	-
Total actual enhancement expenditure (see statement 3)	162

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

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (10) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity

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

in £m 2014-15 prices unless stated

- (11) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (12) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (13) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, East Midlands

in £m 2014-15 prices unless stated

	2014-15		
	Actual	Adjusted PR13	Difference
Funds			
East coast connectivity	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	2	2
Stations - Access for All (AfA)	-	1	1
Development	2	2	-
Level crossing safety	-	1	1
Passenger journey improvement	-	4	4
The strategic rail freight network	9	3	(6)
Total funds	11	13	2
Committed projects			
Thameslink	37	30	(7)
Total committed projects	37	30	(7)
Named schemes			
The Electric Spine:			
MML electrification	52	68	16
Derby station area remodelling	3	-	(3)
Electric spine (DfT SoFA amount)	19	1	(18)
Total Electric Spine projects	74	69	(5)
HLOS capacity metric schemes			
MML long distance high speed services train lengthening	1	2	1
Total HLOS capacity metric schemes	1	2	1
CP4 project rollovers			
MML linespeed improvements	21	18	(3)
Station Security	-	-	-
Other CP4 Rollover	-	-	-
Total CP4 rollovers	21	18	(3)
Other projects			
Seven day railway projects	-	-	-
ERTMS Cab fitment	-	-	-
R&D allowance	-	-	-
Depots and stabling	1	-	(1)
Income generating property schemes	1	3	2
Other income generating investment framework schemes	-	3	3
Total other projects	2	6	4
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	146	138	(8)
B) Investments not included in PR13			
Government sponsored schemes			
Other government sponsored schemes	-	-	-
Total Government sponsored schemes	-	-	-
Network Rail spend to save schemes			
Other spend to save schemes	2	-	(2)
Total Network Rail spend to save schemes	2	-	(2)
Total Schemes promoted by third parties	6	-	(6)
Discretionary Investment	-	-	-
Total non PR13 enhancement expenditure	8	-	(8)
Total Network Rail funded enhancements (see Statement 1)	154	138	(16)
Third Party PAYG	8	-	(8)
Total enhancements (see statement 2b)	162	138	(24)

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

in £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £154m (as shown in Statement 1). This comprises the total enhancement figure in the table above £162m less the PAYG schemes funded by third parties (£8m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when investment activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (c) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.
 - (d) The Strategic rail freight network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year was higher than the regulator assumed as work was re-profiled from later years.

Statement 3: Analysis of enhancement capital expenditure, East Midlands – continued

in £m 2014-15 prices unless stated

- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Expenditure in the year is higher than the determination as work was accelerated from future year of the control period into the current year and so is not classified as efficient overspend.
- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Midland Mainline electrification - This project will reduce railway industry costs and cut carbon emissions through the creation of an electrified route north of Bedford to link the core centres of population and economic activity in the East Midlands and South Yorkshire. Expenditure in the year was lower than the regulator assumed although total CP5 costs are anticipated to be in line with regulatory settlement. Delays in the year on programme design and plant purchases have resulted in lower than planned costs in the year.
- (b) Electric Spine – this fund is to facilitate the DfT's objective of creating an electric network over two control periods by improving national and regional connectivity. The regulator's CP5 profile assumed lower costs in earlier years with greater expenditure towards the end of the five-year period. Network Rail have delivered more in the opening year by accelerating parts of the programme from future years.
- (8) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the PR13 column values in this statement. The additional expenditure in the year compared to the regulator's determination represents efficient overspend, resulting in a financial performance adjustment (refer to Statement 5).
- (9) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
- (a) Depots and stabling – the regulator assumed that activity in this category will be substantially weighted towards future years of the control period whereas Network Rail is planning a more even phasing of expenditure.
- (b) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
- (a) Schemes promoted by third parties – the main scheme in this category in the current year relates to the Nottingham Hub programme.
- (b) Network Rail Spend to save – acquisition of freight sites and paths. Most of the costs of these acquisitions were incurred in control period 4 and included in last year's Regulatory financial statements.

Statement 4: Net debt and financial ratios, East Midlands

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	1,702	1,692	(10)
Income			
Grant income	(219)	(218)	1
Fixed charges	(20)	(20)	-
Variable charges	(60)	(56)	4
Other single till income	(21)	(25)	(4)
Total income	(320)	(319)	1
Expenditure			
Network operations	24	19	(5)
Support costs	18	22	4
Traction electricity, industry costs and rates	25	20	(5)
Network maintenance	64	60	(4)
Schedule 4	11	17	6
Schedule 8	12	-	(12)
Renewals	153	127	(26)
PR13 enhancement	146	119	(27)
Non-PR13 enhancement	8	-	(8)
Total expenditure	461	384	(77)
Financing			
Interest expenditure on nominal debt - FIM covered	26	28	2
Interest expenditure on index linked debt - FIM covered	13	13	-
Expenditure on the FIM	19	20	1
Interest expenditure on government borrowing	5	-	(5)
Interest on cash balances held by Network Rail	(1)	(1)	-
Total interest costs	62	60	(2)
Accretion on index linked debt - FIM covered	12	27	15
Total financing costs	74	87	13
Corporation tax	-	-	-
Other	22	29	7
Movement in net debt	237	181	(56)
Closing net debt	1,939	1,873	(66)

D) Financial indicators

	2014-15 Actual	2014-15 PR13
Adjusted interest cover ratio (AICR)	0.69	0.88
FFO/interest	2.68	2.95
Net debt/RAB (gearing)	70.0%	70.8%
FFO/debt	8.6%	9.4%
RCF/debt	5.4%	6.2%
	-	-
Average interest costs by category of debt	-	-
Average interest costs on nominal debt - FIM covered	3.4%	3.2%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

Statement 4: Net debt and financial ratios, East Midlands – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Debt attributable to East Midlands route has increased by around £240m during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is over £50m higher than the regulator assumed. This is mostly due to higher investment in the railway network, higher performance regime costs and higher than assumed opening net debt partly offset by lower than expected interest costs and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.

Statement 4: Net debt and financial ratios, East Midlands – continued

in £m nominal unless otherwise stated

- b. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- c. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- d. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(14) 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 April 2014. ****Retained cash flow (RCF) is defined as FFO minus net interest.

(15) Financial indicators – AICR – a ratio of less than 1 suggests that the route is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected East Midlands route would not cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). The AICR ratio is lower than the regulator expected due to higher Schedule 8, Network Maintenance and Network Operations costs partly offset by Support costs savings.

(16) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m.

in £m 2014-15 prices unless stated

Total adjustment for under-delivery outputs	(7)
---	-----

Total financial out / (under) performance to be recognised	(39)
--	------

Statement 5a: Total financial performance, East Midlands - continued

in £m 2014-15 prices unless stated

	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Variable income:						
Adjustments for external traction electricity	(8)	(7)	(1)	(8)	(7)	(1)
Total variance not included in total financial performance:	(8)	(7)	(1)	(8)	(7)	(1)

	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	1	-	1	1	-	1
Total variance not included in total financial performance:	1	-	1	1	-	1

	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Traction electricity:						
Adjustments for external traction electricity	8	7	1	8	7	1
Total variance not included in total financial performance:	8	7	1	8	7	1

Statement 5a: Total financial performance, East Midlands – continued

in £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges and variable track access income as Network Rail supplied additional train paths in response to customer demand. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (3) Other single till income – The underperformance recognised in Other single till income is mainly the result of lower than expected freight income.
- (4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. As a result of these adjustments there is no financial outperformance arising from the Opex memorandum arising in the year.
- (5) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate. The determination assumed that Network Rail would exit the control period with a lower cost base. However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a higher cost base than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely.

Statement 5a: Total financial performance, East Midlands – continued

in £m 2014-15 prices unless stated

- (6) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (7) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police (BTP) costs compared to the assumption in the determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.
- (8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (9) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on reactive maintenance in the opening year of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved. Underlying Network maintenance costs are notably higher than the determination. The main contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs.
- (10) Schedule 4 costs – costs were lower than the regulator assumed due to better planning of possessions. Developing and conforming to works schedules, and so possessions resulting, in fewer late possessions which are more expensive and disruptive.
- (11) Schedule 8 costs – the additional cost compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. To bridge this gap in a single year was always going to be unlikely. As a result of this, schedule 8 compensation payments to operators have been higher than ORR assumed.
- (12) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (13) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (14) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.

Statement 5a: Total financial performance, East Midlands – continued

in £m 2014-15 prices unless stated

- (15) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in East Midlands were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) East Midlands also faces a reduction for this missed output
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in East Midlands were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) East Midlands also faces a reduction for this missed output.
- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. There are notable contributions from St Pancras to Sheffield line speed improvements programme and the Peak Forest project within the Strategic freight network programme.

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

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) performance D	Due to: E	Cost (in) / efficiency F	Scope (in) / efficiency G	Other (in) / efficiencies H
Track	(37)	(1)	(36)	(9)	(8)	(1)	-	-
Signalling	10	14	(4)	(1)	(1)	-	-	-
Civils	16	16	-	-	-	-	-	-
Buildings	(1)	(1)	-	-	-	-	-	-
Electrical power and fixed plant	2	2	-	-	-	-	-	-
Telecoms	(2)	(2)	-	-	-	-	-	-
Wheeled plant and machinery	5	5	-	-	-	-	-	-
IT	(4)	(4)	-	-	-	-	-	-
Property	-	-	-	-	-	-	-	-
Other renewals	(15)	(11)	(4)	(1)	-	(1)	-	-
Total	(26)	18	(44)	(11)	(9)	(2)	-	-

Where:

$$C = A - B$$

$$D = C \times 25\%$$

And:

$$D = E + F + G$$

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

in £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable financial underperformance in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Costs in the current year have also suffered from contractor productivity issues as Network Rail has reduced the number of delivery partners it uses as part of its framework contracts which has led to some problems managing the workbanks delivered by those contractors not being retained. Cost improvements were planned to arise from using new technologies and working practices, most notably high output plant. This allows for a full renewal to be completed with minimal possession time, reducing the disruption on passengers. However, this new technology has experienced some emerging issues which has hampered its effectiveness and not delivered the planned cost savings. Cost and budgetary pressures has also resulted in a reduction in volumes planned over the control period. However, there is not a proportionate link between reductions in volumes and reductions in cost and so falling volumes leads to an increase in average costs of each remaining job. Also, off-track works were higher than expected in order to maintain asset quality and functionality.
- (3) Signalling – FPM has been adversely affected by projects rolled over from CP4 for which the ORR has not provided any funding. The delay in completing these project has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned.
- (4) Other renewals – this is mainly due to additional expenses on the FTN programme rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, additional costs have emerged this year a. As this project has finished not all of the expected FPM has been recognised in 2014/15. Once this completes the remaining additional negative FPM will crystallise.

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

in £m 2014-15 prices unless stated

	Variance to adjusted PR13	Variance due to ECAM adjustment	2014-15 Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
MML electrification	16	38	54	-	-	-
MML linespeed improvements	(3)	-	1	-	(4)	(1)
Other Enhancements	(29)	-	(29)	-	-	-
Total	(16)	38	26	-	(4)	(1)

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

in £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) Financial underperformance has been recognised for MML linespeed improvements. This is a project rolled forward from CP4 where the costs of completing the project have been higher than expected. Accurately forecasting project completion costs can be difficult in practice as there are a number of cost inputs which can fluctuate and, as the project is its final stages there is no scope for compensating for cost overruns.

in £m 2014-15 prices unless stated

Where: $C = B - A$

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

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

Statement 5d: Total financial performance – REBS performance, East Midlands – continued

in £m 2014-15 prices unless stated

Notes:

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

Statement 6a: Analysis of income, East Midlands

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	219	218	1	242
Franchised track access income				
Fixed charges	20	20	-	115
Variable charges				
Variable usage charge	10	9	1	10
Traction electricity charges	8	7	1	5
Electrification asset usage charge	1	-	1	-
Capacity charge	26	25	1	27
Station usage charge	-	-	-	-
Schedule 4 net income	15	15	-	10
Schedule 8 net income	-	-	-	-
Total Variable charges income	60	56	4	52
Total franchised track access income	80	76	4	167
Total franchised track access and grant income	299	294	5	409
Other single till income				
Property income	2	2	-	4
Freight income	3	5	(2)	2
Open access income	-	-	-	-
Stations income	9	10	(1)	11
Facility and financing charges	4	5	(1)	3
Depots Income	3	3	-	3
Other income	-	-	-	-
Total other single till income	21	25	(4)	23
Total income	320	319	1	432

Statement 6a: Analysis of income, East Midlands – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Variable usage charge - this is slightly higher than the determination as Network Rail offered additional train paths.
- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is higher than the determination due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. However this is balanced by an overspend on electricity costs (as shown in Statement 7a).
- (5) Capacity charge - this is higher than the determination because there has been an increase in train services in the year compared to the regulator's assumption. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore the in year figure cannot be compared to 2013/14 in a meaningful way.
- (6) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is significantly higher than the 2013/14 value. This is due to changes in the Schedule 4 compensation rates in control period 5 compared to control period 4, which also results in changes in the access charge supplement payable by operators.

Statement 6b: Analysis of other single till income, East Midlands (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property Income				
Property rental	2	3	(1)	5
Property sales	-	-	-	(1)
Adjustment for commercial opex	-	(1)	1	-
Total property income	2	2	-	4
Freight income				
Freight variable usage charge	3	5	(2)	2
Freight traction electricity charges	-	-	-	-
Freight electrification asset usage charge	-	-	-	-
Freight capacity charge	-	-	-	-
Freight only line charge	-	-	-	-
Freight specific charge	-	-	-	-
Freight other income	-	-	-	-
Freight coal spillage charge	-	-	-	-
Total freight income	3	5	(2)	2
Open access income				
Variable usage charge income	-	-	-	-
Open access capacity charge	-	-	-	-
Open access traction electricity charges	-	-	-	-
Fixed contractual contribution	-	-	-	-
Open access other income	-	-	-	-
Total open access income	-	-	-	-
Stations income				
Managed stations income				
Long term charge	-	1	(1)	-
Qualifying expenditure	1	1	-	2
Total managed stations income	1	2	(1)	2
Franchised stations income				
Long term charge	4	4	-	6
Stations lease income	4	4	-	3
Total franchised stations income	8	8	-	9
Total stations income	9	10	(1)	11
Facility and financing charges				
Facility charges	4	5	(1)	3
Crossrail finance charge	-	-	-	-
Welsh Valleys finance charge	-	-	-	-
Total facility and financing charges	4	5	(1)	3
Depots income	3	3	-	3
Other	-	-	-	-
Total other single till income	21	25	(4)	23

Statement 6b: Analysis of other single till income, East Midlands (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	18	10	(8)	19
Signalling shift managers	1	1	-	1
Local operations managers	-	1	1	1
Controllers	1	1	-	1
Electrical control room operators	-	-	-	-
Total signaller expenditure	20	13	(7)	22
Non-signaller expenditure				
Mobile operations managers	-	1	1	-
Managed stations	-	2	2	-
Performance	-	1	1	-
Customer relationship executives	1	-	(1)	-
Route enhancement managers	-	-	-	-
Weather	-	1	1	-
Other	3	1	(2)	2
Operations delivery	-	-	-	-
HQ - Operations services	-	-	-	-
HQ - Performance and planning	-	-	-	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	-	1	1	2
Other operating income	-	(1)	(1)	-
Total non-signaller expenditure	4	6	2	4
Total network operations expenditure	24	19	(5)	26
Support costs				
Core support costs				
Human resources	2	3	1	3
Information management	4	4	-	3
Government and corporate affairs	1	1	-	1
Group strategy	1	1	-	1
Finance	1	1	-	1
Business services	1	1	-	1
Accommodation	2	1	(1)	5
Utilities	2	2	-	2
Insurance	3	3	-	2
Legal and inquiry	-	-	-	-
Safety and sustainable development	1	1	-	1
Strategic sourcing	-	-	-	1
Business change	-	-	-	-
Other corporate functions	-	-	-	1
Core support costs	18	18	-	22
Other support costs				
Asset management services	2	2	-	2
Network Rail telecoms	3	2	(1)	3
National delivery service	-	-	-	-
Infrastructure Projects	(1)	-	1	(3)
Commercial property	(1)	-	1	1
Group costs	(3)	-	3	9
Total other support costs	-	4	4	12
Total support costs	18	22	4	34
Traction electricity, industry costs and rates				
Traction electricity	9	7	(2)	5
Business rates	8	8	-	8
British transport police costs	5	4	(1)	4
RSSB costs	1	-	(1)	-
ORR licence fee and railway safety levy	2	1	(1)	1
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
Total traction electricity, industry costs and rates	25	20	(5)	18
Total network operations expenditure, support costs, traction electricity, industry costs and rates	67	61	(6)	78

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs of in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 with a lower Network Operations cost base than they did as efficiencies that were expected to occur in the final years of CP4 did not materialise. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, there have been delays implementing efficiency strategies in the current year. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that ceteris paribus, costs would exceed the regulatory allowance for 2014/15. Costs are generally in line with the previous year with some efficiencies made.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (5) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (6) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as "non-controllable" to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher electricity charges and British Transport Police costs.

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

in £m 2014-15 prices unless stated

- (7) Traction electricity – costs are significantly higher than the determination and the previous year. Network Rail has limited ability to influence traction electricity costs which are driven by the prevailing market rates of these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in the financial year are higher than the determination due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also higher than the Regulator assumed.
- (8) British transport police costs - costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were noticeably higher than the regulator assumed when preparing their CP5 determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, East Midlands (unaudited)

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	13	15
Operations and customer services non-signalling	-	-
MOMS	1	-
Control	2	1
Planning & Performance Staff Costs	2	-
Managed Stations Staff Costs	1	-
Operations Management Staff Costs	1	-
Other	6	8
Total operations & customer services costs	26	24
Total Network Operations	26	24
Support		
Human resources		
Functional support	2	2
Training (inc Westwood)	1	-
Graduates	-	-
Apprenticeships	-	-
Other	-	-
Total human resources	3	2
Information management		
Support	-	-
Projects	-	-
Licences	-	-
Business operations	3	4
Other	-	-
Total information management	3	4
Finance	1	1
Business Change	-	-
Contracts & procurement	-	-
Strategic Sourcing (National Supply Chain)	-	-
Planning & development	1	1
Safety & compliance	1	-
Other corporate services	3	1
Commercial property	6	1
Infrastructure Projects	(3)	(1)
Route Services	1	-
Asset management & Engineering/Asset heads	8	-
National delivery service	-	-
Private party	-	-
Utilities	-	2
Network Rail telecoms	-	3
Digital Railway	-	1
Safety Technical & Engineering	-	2
Government & Corporate Affairs	-	1
Business Services	-	1
Route Asset Management	-	(1)
Legal and inquiry	-	-
Group/central	-	-
Pensions	-	-
Insurance	2	3
Redundancy/reorganisation costs	4	1
Staff incentives/Bonus Reduction	-	(1)
Accommodation & Support Recharges	-	(2)
Vehicle lease recoveries	-	-
ORR financial penalty	4	(1)
Other	-	-
Total group/central costs	10	-
Total support	34	18
Total network operations and support costs	60	42

Statement 7b: Analysis of network operations expenditure and support costs by activity, East Midlands (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, East Midlands

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	24	24	-	30
Signalling	10	8	(2)	8
Civils	5	7	2	9
Buildings	-	2	2	4
Electrical power and fixed plant	4	4	-	4
Telecoms	1	1	-	1
Other network operations	11	10	(1)	6
Asset management services	8	2	(6)	2
National Delivery Service	-	3	3	1
Property	2	-	(2)	-
Group	(1)	(1)	-	(1)
Total maintenance expenditure	64	60	(4)	64

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

in £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are higher than the determination and the prior year. The main contributor to this was Network Rail's decision to reduce the level of incentive payouts to senior management and instead, re-invest this money into programmes to improve the safety and performance of the network. A significant amount was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services. Despite this, track maintenance costs were lower than the previous year and in line with the determination. This is partly due to responsibility for certain tamping and stoneblowing activities moving to Asset management services and so being reported against that line in the accounts. There is no impact on overall Maintenance costs as a result of this switch. The underlying position compared to the regulatory allowance shows a higher spend on track-based maintenance activities.
- (4) Civils – costs were lower than the determination mainly as a result of a lower level of Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are lower than the prior year mostly due to a lower level of Reactive Maintenance required this year compared to 2013/14.
- (5) Buildings – there were no maintenance costs for Buildings reported in last year's Regulatory financial statements as the regulator chose to fund reactive maintenance works through Renewals last control period whereas this year, to be consistent with International Accounting Standards (IAS), these costs are accounted for as maintenance. The prior year has been restated to reflect these changes and provide a like-for-like comparison. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. There was no reactive maintenance on buildings in the year and thus there is no cost.

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

in £m 2014-15 prices unless stated

- (6) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category and contributes to the spend being higher than the regulator's determination. As expected in the regulator's determination, costs are higher than the previous year in this area as Network operations staff delivered more maintenance capabilities.
- (7) Asset Management Services – costs are higher than the previous year and the determination. A large part of this increase is due to additional tamping and stone-blower activity delivered by the Asset management teams. In previous years, this service was provided by the local maintenance team and classified as Track maintenance. There is no overall change in maintenance costs as a result of this.
- (8) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year.

Statement 9a: Summary analysis of renewals expenditure, East Midlands

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	94	57	(37)	90
Signalling	18	28	10	36
Civils	9	25	16	20
Buildings	6	5	(1)	7
Electrical power and fixed plant	3	5	2	4
Telecoms	4	2	(2)	9
Wheeled plant and machinery	4	9	5	2
Information Technology	9	5	(4)	6
Property	-	-	-	1
Other renewals	6	(9)	(15)	11
Total renewals expenditure	153	127	(26)	186

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

in £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – track costs are higher than the regulator assumed. This is a combination of accelerating volumes and higher than expected underlying costs. Network Rail's planned expenditure this year expected an overspend of more than £15m on a like-for-like basis. This higher cost was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual costs were higher than Network Rail planned partly due to contractor dispute issues (partly as a result of productivity problems arising from rationalising the supplier base) and lower than expected efficiencies from productivity initiatives. Also, off-track works were higher than expected in order to maintain asset quality and functionality. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Expenditure was lower than the previous year with the largest contribution coming from conventional plain line renewals which was mainly a result of lower volumes delivered in the current year. Costs are generally in line with the previous year.
- (3) Signalling – overall, expenditure was lower than the determination expected. However, this was largely due to deferral of activity (such as East Nottinghamshire programme and Syston-Peterborough level crossing project), which was partly offset by higher than expected costs on a like for like basis. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is much lower than last year due to a different workbank being delivered in CP5.

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

in £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Civils underbridges – expenditure was lower than the regulator assumed largely due to a re-profiling of volumes until later years of the control period. This was partly caused by delays in awarding framework contracts and also to align project delivery with possessions planned in later years to minimise service disruption. Earthworks expenditure is lower than the regulator's assumption due to a re-profiling of volumes until later years of the control period (mostly due to the aforementioned delay in agreeing contracts). Expenditure is noticeably lower than the previous year. In CP4 Government provided some additional funds for accelerated civils expenditure as part of a fiscal stimulus package for the economy.
- (5) Telecoms – expenditure in the year was slightly higher the determination. This is mostly due to acceleration of work from future years due to resource and access availability. Most of the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements.
- (6) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5). Expenditure is higher than the previous year due to additional High output plant purchases and increased spend on Intervention items.
- (7) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.
- (8) Other renewals
- Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, although there has been spend on ORBIS this year, as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
 - Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.

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

in £m 2014-15 prices unless stated

- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- d. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN and ORBIS (as noted above). Expenditure on FTN has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

Statement 9b: Detailed analysis of renewals expenditure, East Midlands (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	17	12	(5)
High output renewal	44	27	(17)
Plain line refurbishment	2	1	(1)
S&C renewal	16	10	(6)
S&C refurbishment	4	2	(2)
Track non-volume	2	2	-
Off track	9	3	(6)
Total track	94	57	(37)
Signalling			
Full conventional resignalling	7	1	(6)
Modular resignalling	6	4	(2)
ERTMS resignalling	-	-	-
Partial conventional resignalling	1	5	4
Targeted component renewal	-	1	1
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	-	-	-
Operating strategy other capital expenditure	-	2	2
Level crossings	-	6	6
Minor works	4	7	3
Centrally managed costs	-	2	2
Total signalling	18	28	10
Civils			
Underbridges	5	13	8
Overbridges	1	1	-
Bridgeguard 3	-	-	-
Major structures	2	1	(1)
Tunnels	1	1	-
Other assets	-	2	2
Structures other	-	2	2
Earthworks	-	5	5
Other	-	-	-
Total civils	9	25	16
Buildings			
Managed stations	-	1	1
Franchised stations	3	3	-
Light maint depots	1	-	(1)
Depot plant	-	1	1
Lineside buildings	1	-	(1)
MDU buildings	1	-	(1)
NDS depots	-	-	-
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	6	5	(1)

Statement 9b: Detailed analysis of renewals expenditure, East Midlands (unaudited) - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	-	-	-
Overhead Line	3	2	(1)
DC distribution	-	-	-
Conductor rail	-	-	-
SCADA	-	-	-
Energy efficiency	-	-	-
System capability / capacity	-	-	-
Other electrical power	-	1	1
Fixed plant and rail heating	-	2	2
Total electrical power and plant	3	5	2
Telecoms			
Operational communications	-	-	-
Network	-	-	-
SISS	1	-	(1)
Projects and other	-	-	-
Non-route capital expenditure	3	2	(1)
Total telecoms	4	2	(2)
Wheeled plant and machinery			
High output	2	5	3
Incident response	-	-	-
Infrastructure monitoring	-	-	-
Intervention	-	2	2
Materials delivery	1	-	(1)
On track plant	-	-	-
Seasonal	-	2	2
Locomotives	-	-	-
Fleet support plant	-	-	-
Road vehicles	1	-	(1)
S&C delivery	-	-	-
Total wheeled plant and machinery	4	9	5
Information Technology			
IM delivered renewals	8	4	(4)
Traffic management	1	1	-
Total information technology	9	5	(4)
Property			
MDUs/offices	-	-	-
Commercial estate	-	-	-
Corporate services	-	-	-
Total property	-	-	-
Other renewals			
Asset information strategy	-	3	3
Intelligent infrastructure	1	1	-
Faster isolations	-	2	2
LOWS	-	-	-
Small plant	-	1	1
Research and development	-	-	-
Phasing overlay	-	(16)	(16)
Engineering innovation fund	-	-	-
CP4 rollover	5	-	(5)
Other	-	-	-
West Coast	-	-	-
Total other renewals	6	(9)	(15)
Total renewals	153	127	(26)

Statement 9b: Detailed analysis of renewals expenditure, East Midlands (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, East Midlands

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	11	17	6	23
Access charge supplement Income	(15)	(15)	-	(10)
Net (income)/cost	(4)	2	6	13
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	12	-	(12)	12
Access charge supplement Income	-	-	-	-
Net (income)/cost	12	-	(12)	12

B) Opex memorandum account

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

Statement 10: Other information, East Midlands – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are lower than the determination due to more efficient planning of possessions. Developing and conforming to works schedules, and so possessions resulting, in fewer late possessions which are more expensive and disruptive. The route also made efficient use of "blockades". This involves planning renewals and enhancement works to occur at the same time on a portion of the network. This results in a longer possession but allows more work to be completed and thus generates delivery efficiencies. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the in-year cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2014/15. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2014/15 unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the year, with the majority of delay minutes being associated with infrastructure failures. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the in-year cost cannot be compared to the 2013/14 number in a meaningful way.
- (3) The opex memorandum currently shows a minor net income. These amounts have not been recognised as financial outperformance as reported in Statement 5a.

Statement 12: Volume incentives, East Midlands

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year	2013-14 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	1	-	16	16	0.2%	1.46	pence per passenger train mile
Passenger farebox (millions)	2	-	509	481	2.1%	2.5%	% of additional farebox revenue
Freight train miles (millions)	1	-	1	1	1.0%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	2	-	1,801	1,645	1.2%	2.50	pence per freight 1,000 gross tonne mile
Total volume incentive	6	-					

The cumulative volume incentive is determined by the formula: $[A_t - (B_{t-1} \times (1 + C_t))] \times D \times 5$

Where:

A_t = Actual in year quantity

B = 2014-15 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, East Midlands – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, East Midlands

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	211	361	76	-	76	425	-	64	n/a
MNT005	Plain Line Stoneblowing (km)	km	725	91	66	-	66	215	-	124	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	154	1,443	222	-	222	1,450	-	7	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	364	321	117	-	117	650	-	329	n/a
MNT007	S&C Tamping (point end)	Point end	159	151	24	-	24	230	-	79	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	476	936	446	-	446	1,100	-	164	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	137	3,734	513	-	513	4,200	-	466	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	534	116	62	-	62	300	-	184	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	4	127,942	464	-	464	110,000	-	(17,942)	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	15	22,574	330	-	330	15,000	-	(7,574)	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	16	120,326	1,920	-	1,920	88,875	-	(31,451)	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	10	27,092	284	-	284	7,500	-	(19,592)	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	19,375	16	310	-	310	40	-	24	n/a
MNT122	S&C Maintenance (point end)	Point end	33	18,005	600	-	600	25,000	-	6,995	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	11,500	16	184	-	184	35	-	19	n/a
MNT124	S&C Stoneblowing (point end)	Point end	143	21	3	-	3	80	-	59	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	749	-	-	-	795	-	46	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	160	-	-	-	380	-	220	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	19	15,477	300	-	300	66,440	-	50,963	n/a
MNT073	Drainage (Yard)	Yard	10	12,301	117	-	117	40,000	-	27,699	n/a
MNT075	LX Management - Off Track (Each)	Each	177	752	133	-	133	966	-	214	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	177	1,005	178	-	178	500	-	(505)	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	-	-	-	-	-	1,500	-	1,500	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	3	236,327	713	-	713	176,000	-	(60,327)	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	239	251	60	-	60	160	-	(91)	n/a
N/A	Non volume track and off-track maintenance	£m				17,179	17,179				n/a
Total track and off-track maintenance					7,122	17,179	24,301		24,335		34
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				10,301	10,301			-	n/a
Total signalling maintenance						10,301	10,301		7,972		(2,329)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, East Midlands - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	8,608	-	-	-	8,091	-	(517)	n/a
MNT221	Detailed Examinations	No.	-	324	-	-	-	397	-	73	n/a
MNT222	Underwater Examination	No.	-	46	-	-	-	102	-	56	n/a
MNT223	Ancillary Structure examination	No. detailed	-	37	-	-	-	76	-	39	n/a
MNT224	Hidden critical element examinations	No.	-	44	-	-	-	44	-	-	n/a
MNT225	Load carrying assessment	No. spans	-	550	-	-	-	550	-	-	n/a
MNT226a	Visual Examinations (Civils)	No.	-	2,227	-	-	-	2,545	-	318	n/a
N/A	Non volume civils maintenance	£m				4,809	4,809			-	n/a
Total civils maintenance						4,809	4,809		6,657		1,848
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	879	-	-	-	879	-	-	n/a
MNT227	5 yearly examinations	Each	-	26	-	-	-	24	-	(2)	n/a
N/A	Non volume buildings maintenance	£m				114	114			-	n/a
Total buildings maintenance						114	114		1,970		1,856
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	-	2	-	-	-	-	-	(2)	n/a
MNT209	Maintain DC Traction Power Supplies	Each	127	110	14	-	14	-	-	(110)	n/a
MNT211	Maintain OHL Components	Various	226	2,747	620	-	620	5,708	-	2,961	n/a
MNT212	Maintain Points Heating	Each	48	8,876	426	-	426	8,670	-	(206)	n/a
MNT213	Maintain Signalling Power Supplies	Number	76	1,257	95	-	95	1,542	-	285	n/a
N/A	Non volume electrical power and fixed plant maintenance	£m				2,705	2,705			-	n/a
Total electrical power and fixed plant maintenance						1,155	2,705	3,860	3,523		(337)
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				1,345	1,345			-	n/a
Total telecoms maintenance						1,345	1,345		790		(555)
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				10,662	10,662			-	n/a
Total other network operations maintenance						10,662	10,662		10,899		237

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, East Midlands - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				7,531	7,531			-	n/a
Total asset management services maintenance						7,531	7,531		1,999		(5,532)
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(293)	(293)			-	n/a
Total national delivery service maintenance						(293)	(293)		2,536		2,829
Property maintenance											
N/A	Non volume property maintenance	£m				1,668	1,668			-	n/a
Total property maintenance						1,668	1,668		185		(1,483)
Group maintenance											
N/A	Non volume group maintenance	£m				(1,280)	(1,280)			-	n/a
Total group maintenance						(1,280)	(1,280)		(1,226)		54
Total							63,018		59,640		(3,378)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, East Midlands – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	lkm	529	119	63	-	63	486	140	68	-	68	(44)	21	5	-	5
	Conventional	lkm	472	36	17	-	17	432	37	16	-	16	(40)	1	(1)	-	(1)
	High Output	lkm	620	71	44	-	44	580	88	51	-	51	(40)	17	7	-	7
	Refurbishment	lkm	167	12	2	-	2	67	15	1	-	1	(100)	3	(1)	-	(1)
	S&C	point ends	222	90	20	-	20	194	72	14	-	14	(28)	(18)	(6)	-	(6)
	Track Drainage		-	-	2	-	2	-	-	2	-	2	-	-	-	-	-
	Renewal	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Refurbishment	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	New Build	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Fencing		83	12	1	-	1	36	28	1	-	1	(48)	16	-	-	-
	Slab Track		-	-	-	1	1	1	-	-	-	-	1	-	-	(1)	(1)
	Off track		-	-	-	7	7	(8)	-	-	2	2	(8)	-	-	(5)	(5)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				88	8	94			85	2	87			(1)	(6)	(7)
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	14	n/a	n/a	n/a	-	11	n/a	n/a	n/a	-	(3)
	Full conventional resignalling	SEU	-	-	7	-	7	-	-	1	-	1	-	-	(6)	-	(6)
	Modular resignalling	SEU	-	-	6	-	6	129	31	4	-	4	129	31	(2)	-	(2)
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	-	1	-	1	-	-	5	-	5	-	-	4	-	4
	Targeted component renewal	SEU	-	-	-	-	-	-	-	1	-	1	-	-	1	-	1
	Level crossings	No.	-	-	-	-	-	889	9	8	-	8	889	9	8	-	8
	Signalling other		n/a	n/a	n/a	4	4	n/a	n/a	n/a	8	8	n/a	n/a	n/a	4	4
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Operating strategy other capex		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Minor works		n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4	n/a	n/a	n/a	-	-
	Centrally managed costs		-	-	-	-	-	-	-	-	2	2	-	-	-	2	2
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				14	4	18			19	8	27			5	4	9

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	9	n/a	n/a	n/a	-	17	n/a	n/a	n/a	-	8
	Underbridges	m2	30	165	5	-	5	1	10,648	14	-	14	(29)	10,483	9	-	9
	Overbridges (incl BG3)	m2	7	143	1	-	1	3	601	2	-	2	(4)	458	1	-	1
	Tunnels	m2	3	400	1	-	1	1	1,240	1	-	1	(1)	840	-	-	-
	Major structures	m2	-	-	-	2	2	-	-	-	-	-	-	-	-	(2)	(2)
	Other structures assets		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	1	n/a	n/a	n/a	-	1
	Culverts	m2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Footbridges	m2	-	35	-	-	-	6	160	1	-	1	6	125	1	-	1
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Earthworks	5-chain	-	3	-	-	-	29	182	5	-	5	29	179	5	-	5
	EW Drainage		-	11	-	-	-	-	6,445	1	-	1	-	6,434	1	-	1
	Renewal	lm	-	1	-	-	-	-	295	-	-	-	-	294	-	-	-
	Refurbishment	lm	-	10	-	-	-	-	61	-	-	-	-	51	-	-	-
	Maintenance	lm	-	-	-	-	-	-	6,089	-	-	-	-	6,089	-	-	-
	New Build	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Structures other		-	-	-	-	-	-	-	-	1	1	-	n/a	-	1	1
	Other		-	-	-	-	-	-	-	-	(3)	(3)	-	n/a	-	(3)	(3)
	Total				7	2	9			24	(2)	22			17	(4)	13

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	3	n/a	n/a	n/a	-	5	n/a	n/a	n/a	-	2
	Footbridges	m2	-	-	-	-	-	-	80	n/a	n/a	-	n/a	80	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	608	-	-	-	-	840	n/a	n/a	-	n/a	232	n/a	n/a	-
	Platforms	m2	-	2,821	-	-	-	-	-	n/a	n/a	-	n/a	(2,821)	n/a	n/a	-
	Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	3	3	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-
	Footbridges	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	6,500	1	-	1	-	5,000	-	-	2	n/a	(1,500)	n/a	n/a	1
	Buildings	m2	-	-	-	-	-	-	5,000	n/a	n/a	-	n/a	5,000	n/a	n/a	-
	Depot Shed	m2	-	6,500	-	-	-	-	-	n/a	n/a	-	n/a	(6,500)	n/a	n/a	-
	Lineside Buildings	m2	-	-	1	-	1	-	30	n/a	n/a	1	n/a	30	n/a	n/a	-
	MDU Buildings	m2	1	850	1	-	1	-	160	n/a	n/a	1	n/a	(690)	n/a	n/a	-
	Depot Plant		-	-	-	-	-	-	-	n/a	n/a	2	n/a	n/a	n/a	n/a	2
	NDS Depots		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(2)	n/a	n/a	n/a	n/a	(2)
	Total				3	3	6			-	-	9			-	-	3

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	3	-	-	-	-	2	-	-	-	-	(1)
	Overhead Line Equipment (OLE) Re-wiring	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	-	56	n/a	n/a	-	n/a	56	n/a	n/a	-
	Structure Renewals	No.	-	-	1	-	1	-	7	n/a	n/a	-	n/a	7	n/a	n/a	-
	Other		-	-	-	2	2	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	AC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Transformer Rectifiers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	-	-	-	n/a	n/a	2	n/a	n/a	n/a	n/a	2
	Signalling Power Cable Renewal	km	-	-	-	-	-	-	10	n/a	n/a	-	n/a	10	n/a	n/a	-
	Principle Supply Point Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	-	-	-	-	-	16	n/a	n/a	-	n/a	16	n/a	n/a	-
	SCADA		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Energy efficiency		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	System capability / capacity		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other electrical power		-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					1	2	3			-	-	5			-	-	2

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	1	-	-	-	-	-	n/a	n/a	n/a	n/a	(1)
	Customer Information Systems	No.	-	94	-	-	-	-	-	n/a	n/a	-	n/a	(94)	n/a	n/a	-
	Public Address CCTV	No.	4	246	1	-	1	-	-	n/a	n/a	-	n/a	(246)	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Operational Comms	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	PABX Concentrator	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: CCTV	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Emergency Telephone System	No.	-	4	-	-	-	-	-	n/a	n/a	-	n/a	(4)	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Projects and other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Non route capex		n/a	n/a	n/a	3	3	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	-
	Total				1	3	4			-	-	3			-	-	(1)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Wheeled plant and machinery	High output		-	-	-	2	2	n/a	n/a	n/a	4	4	n/a	n/a	n/a	2	2
	Incident response		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Infrastructure monitoring		-	-	-	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Intervention		-	-	-	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Materials delivery		-	-	-	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)
	On track plant		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Seasonal		-	-	-	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Locomotives		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Fleet support plant		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Road vehicles		-	-	-	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)
	S&C delivery		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total				-	4	4			-	9	9			-	5	5
IT	IM delivered renewals		-	-	-	8	8	n/a	n/a	n/a	7	7	n/a	n/a	n/a	(1)	(1)
	Traffic management		-	-	-	-	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	-
	Other		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total				-	8	9			-	8	8			-	-	(1)
Property	MDUs/offices		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Commercial estate		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Corporate services		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total				-	-	-			-	-	-			-	-	-
Other renewals	Asset information strategy		-	-	-	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Intelligent infrastructure		-	-	-	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-
	Faster isolations		-	-	-	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	LOWS		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Small plant		-	-	-	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Research and development		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Phasing overlay		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Engineering Innovation Fund		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	West Coast		-	-	-	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	CP4 Rollover		-	-	-	5	5	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(5)	(5)
	Other		-	-	-	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Total				-	6	6			-	9	9			-	3	3
Total Renewals					-	-	153			-	-	179			-	-	26

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands – continued

in £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statement 9a.
- (3) Track - High Output - this year the High Output programme has delivered lower than planned. The overrun of the renewal machine overhaul has severely impacted deliverability within East Midlands.
- (4) Track - Switches & Crossings - Switches & Crossings volumes are higher than plan. This is in relation to the recovery of works originally planned for delivery in CP4 as well as acceleration from next year due to take advantage of efficient access opportunities.
- (5) Track – fencing – work has been re-profiled into future years to optimise delivery strategies.
- (6) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (7) Signalling – Modular resignalling – the plan assumed that the East Nottinghamshire programme would be delivered in the current year. However, delays in obtaining agreeable contracts and internal approval for the scheme has meant this programme is deferred into 2015/16.
- (8) Signalling - Level Crossings - workbank is below plan mainly due to the delays on the Syston to Peterborough project as the most appropriate delivery strategy is considered.
- (9) Structures - Underbridges - workbank is below plan. Scheduled delivery has been significantly inhibited due to the late award of framework contracts to third parties. Whilst this has caused a delay in the current year it is expected that this will be mostly caught up over the remainder of the control period. Securing the appropriate framework contracts allows for the optimal delivery of the structures workbank during the CP5.
- (10) Structures - Overbridges - workbank is below plan notably due to Robinsons and Awesworth Road programmes which have been re-phased into later years to align with optimum access opportunities presented by the MML electrification enhancement programme. This enables possession costs and passenger disruption to be minimised.
- (11) Structures - Tunnels - The workbanks is below plan. Scheduled delivery has been significantly inhibited due to the late award of framework contracts to third parties. Whilst this has caused a delay in the current year it is expected that this will be mostly caught up over the remainder of the control period. Securing the appropriate framework contracts allows for the optimal delivery of the structures workbank during the CP5.
- (12) Structures - Footbridges - Footbridge volumes is less than Network Rail's published CP5 Business Plan Volume delivery has been hampered by access issues at certain sites and disputes with landowners.

Statement 14: Renewals volumes, unit costs and expenditure, East Midlands – continued

in £m 2014-15 prices unless stated

- (13)Earthworks - volumes are below plan in the three core areas of embankments, rock cuttings and soil cuttings. The key drivers for these variances are delays associated with the finalisation of framework contracts (as noted above), the impact of resource and deliverability restrictions.
- (14)Earthwork drainage - volumes of pipe works are substantively down from plan across all activity types. This is reflective of the fact that work of this nature is usually delivered alongside wider earthworks interventions and therefore widespread slippage would be expected given the general trend of under delivery witnessed for Earthworks.
- (15)Buildings - Franchised Stations - within the workbank there has been lower than planned volumes in Footbridges and Canopies but increased volumes of Platform renewals. This is due to works at Bedford and Stamford. The reduction in Canopies volumes is mostly due to Kettering station, where works have been deferred until 2016/17 to coincide with expected works in the region on the MML electrification enhancement programme. This enables possession costs and passenger disruption to be minimised.
- (16)Electrification - No volumes have been delivered in the year due to the fact that substantive renewals works programmes on the asset have been deferred pending certainty around the scope of the Midland Mainline electrification enhancement programme. This is also affecting the completion of interlinked Structures refurbishment programme on the East Midlands route. Points heaters are below Network Rail's published CP5 Business Plan primarily due to the fact that a reduced level of intervention is required as a result of improved asset condition information and targeted life extension works.
- (17)Telecoms - Station Information and Surveillance Systems (SISS) – Customer Information Screens and Public Address systems were renewed in the year. Although none of these volumes were included in the plan, access and resource opportunities allowed acceleration of activity from future years.

Statement 1: Summary regulatory financial performance, Kent

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	302	300	2	280
Fixed Income	27	27	-	96
Variable Income	86	82	4	59
Other Single Till Income	89	94	(5)	88
Opex memorandum account	1	-	1	-
Total Income	505	503	2	523
Operating expenditure				
Network operations	39	36	(3)	41
Support costs	34	40	6	43
Traction electricity, industry costs and rates	62	55	(7)	54
Network maintenance	96	79	(17)	86
Schedule 4	14	15	1	6
Schedule 8	21	-	(21)	17
Total operating expenditure	266	225	(41)	247
Capital expenditure				
Renewals	231	222	(9)	249
PR13 enhancement expenditure	521	534	13	410
Non PR13 enhancement expenditure	7	-	(7)	85
Total capital expenditure	759	756	(3)	744
Other expenditure				
Financing costs	119	138	19	118
Corporation tax (received)/paid	-	-	-	-
Rebates	-	-	-	9
Total other expenditure	119	138	19	127
Total expenditure	1,144	1,119	(25)	1,118

Statement 1: Summary regulatory financial performance, Kent - continued

In £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was in line with the determination. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was higher than the determination mostly due to higher electricity costs that Network Rail could pass onto operators. This is offset by higher Operating expenditure. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is lower than the determination due to some changes in the way certain capital programmes are funded. This is offset by a corresponding saving in interest. Excluding this, income is higher than the determination as set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – there is a minor amount reported this year. This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as delays in implementing efficiency initiatives. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher electricity costs which are largely recovered from operators through income. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination and the previous year which is mostly a result investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination due to deferral of renewals activities. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Operating expenditure - Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets for the first year of the control period. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure is slightly less than the determination. This is a combination of efficient overspends offset by re-profiling of programme delivery. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

Statement 1: Summary regulatory financial performance, Kent - continued

In £m 2014-15 prices unless stated

- (17) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

Statement 2a: RAB - regulatory financial position, Kent

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	3,676	3,676	-
Indexation to 2013-14 prices	97	97	-
Opening RAB for the year (2013-14 prices)	3,773	3,773	-
Indexation for the year	75	75	-
Opening RAB (2014-15 prices)	3,848	3,848	-
Adjustments for the actual capital expenditure outturn in			
CP4	109	-	109
Renewals	213	222	(9)
PR13 enhancements	509	528	(19)
Non-PR13 enhancements	6	-	6
Total enhancements	515	528	(13)
Amortisation	(189)	(189)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2015	4,496	4,409	87

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	3,848
Adjustments for the actual capital expenditure outturn in	
CP4	109
Renewals	213
PR13 enhancements	509
Non-PR13 enhancements	6
Total enhancements	515
Amortisation	(189)
Adjustments for under-delivery of regulatory outputs	-
Closing RAB	4,496

Statement 2a: RAB - Regulatory financial position, Kent - continued

In £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was a combination of re-profiling activity from future years, expenditure rolled over from CP4 (for which the regulator adjusted the renewals allowances) offset by some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was lower than the regulator assumed. This was due to a deferral of enhancement activity and efficient overspends compared to the funding available (the value of which cannot all be logged by to the RAB). The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position.

Statement 2b: RAB - reconciliation of expenditure, Kent

in £m 2014-15 prices unless stated

Total as at 31/03/15

Renewals

Renewals per the PR13 determination	222
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	36
Capitalised financing on CP4 deferrals	1
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (renewals)	259
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(99)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)
Adjustments for efficient overspend	68
Capitalised financing on efficient overspend	1
25% retention of efficient overspend	(17)
Capitalised financing on efficient overspend 25% retention	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing on efficient underspend 25% retention	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments for efficient overspend through spend to save framework	4
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other adjustments	-
Capitalised financing on other adjustments	-
Total Renewals (added to the RAB - see Statement 2a)	213
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	-
Adjustment for 25% retention of efficient overspend	18
Adjustment for 25% retention of efficient underspend	-
Other adjustments	-
Total actual renewals expenditure (see statement 9)	231

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

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	528
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	4
Capitalised financing on CP4 deferrals	-
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	-
Capitalised financing on adjustments to DfT funding	-
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (enhancements)	532
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(78)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)
Adjustments for efficient overspend	-
Capitalised financing on efficient overspend	-
25% retention of efficient overspend	-
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	66
Capitalised financing relating to projects with tailored protocols or fixed price	(11)
Capitalised financing relating to projects with tailored protocols or fixed price	1
Adjustments for efficient overspend through spend to save framework	1
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	509
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	7
Capitalised financing on non-PR13 enhancements expenditure	(1)
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6
Total enhancements (added to the RAB - see statement 2a)	515
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	1
Adjustment for 25% retention of efficient overspend	12
Other adjustments (including discretionary investment)	-
Adjustment for 25% retention of efficient underspend	-
Non-PR13 enhancement expenditure	
Third party funded schemes	-
Other adjustments	2
Total actual enhancement expenditure (see statement 3)	530

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

In £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted.
- (10) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (11) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – this relates to the gross efficient overspend on the Thameslink programme which is eligible for RAB addition (subject to an amount retained by Network Rail as noted below).

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

In £m 2014-15 prices unless stated

- (12) Enhancements - Adjustments relating to projects with tailored protocols or fixed price agreements – retention of efficient overspend – this relates to the efficient overspend on the Thameslink programme which is not eligible for RAB addition. Certain programmes have their own protocols which establishes how much of any efficient under/ overspend that Network Rail retains. As shown in Statement 5c, the effective rate of Thameslink overspends that Network Rail retains is 16.5 per cent based on the current level of anticipated total programme costs.
- (13) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will receive the other 20 per cent of the expense through additional income during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (14) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (15) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

Statement 3: Analysis of enhancement capital expenditure, Kent

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Funds			
East coast connectivity	-	-	-
Stations - National Station Improvement Programme (NSIP)	1	2	1
Stations - Access for All (AfA)	9	5	(4)
Development	2	2	-
Level crossing safety	2	1	(1)
Passenger journey improvement	1	5	4
The strategic rail freight network	-	4	4
Total funds	15	19	4
Committed projects			
Crossrail	44	74	30
Thameslink	375	357	(18)
Total committed projects	419	431	12
HLOS capacity metric schemes			
East Kent resignalling phase 2	25	31	6
New Cross Grid	2	15	13
Kent traction power supply upgrade	3	6	3
Total HLOS capacity metric schemes	30	52	22
CP4 project rollovers			
Kent power supply upgrade (CP4)	37	26	(11)
Package 4: Gravesend Train Lengthening	-	-	-
Station Security	-	-	-
Other CP4 Rollover	-	-	-
Total CP4 rollovers	37	26	(11)
Other projects			
Seven day railway projects	1	-	(1)
R&D allowance	-	1	1
Depots and stabling	1	-	(1)
Income generating property schemes	18	3	(15)
Other income generating investment framework schemes	-	2	2
Total other projects	20	6	(14)
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	521	534	13
B) Investments not included in PR13			
Government sponsored schemes			
Other government sponsored schemes	5	-	(5)
Total Government sponsored schemes	5	-	(5)
Network Rail spend to save schemes			
Other spend to save schemes	2	-	(2)
Total Network Rail spend to save schemes	2	-	(2)
Total Schemes promoted by third parties	-	-	-
Discretionary Investment	-	-	-
Total non PR13 enhancement expenditure	7	-	(7)
Total Network Rail funded enhancements (see Statement 1)	528	534	6
Third Party PAYG	2	-	(2)
Total enhancements (see statement 2b)	530	534	4

Statement 3: Analysis of enhancement capital expenditure, Kent - continued

In £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £528m (as shown in Statement 1). This comprises the total enhancement figure in the table above £530m less the PAYG schemes funded by third parties (£2m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although this expenditure on this scheme was higher than the determination in the year expenditure over the control period is not expected to exceed the regulator's allowances.
 - (c) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.

Statement 3: Analysis of enhancement capital expenditure, Kent - continued

In £m 2014-15 prices unless stated

- (d) The Strategic rail freight network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year was lower than the regulator assumed as work was re-profiled to later years.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
 - (a) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Spend in the year is in line with the determination. However there has been underperformance as costs of activity in the London Bridge area (including the station itself) have been higher than planned. This is reflected in the financial performance reported in Statement 5a. This project is being delivered under a contractual arrangement which sets out how much of this overspend can be added to the RAB and how much is retained by Network Rail (refer to Statement 2a).
 - (b) Crossrail - This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Although expenditure is less than the PR13 this is all due to re-phasing of expenditure in the control period and so does not count as financial outperformance. Actual expenditure in the year is only slightly behind Network Rail's own internal plans.
- (7) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
 - (a) East Kent resignalling phase 2 - This project will provide the provision of capability and capacity to facilitate the future time table (December 2018) through the Medway towns, operational cost reduction and improved integration of the railway with other forms of public transport. Whilst expenditure in the year was lower than the regulator assumed it was in line with Network Rail's internal plan and funding set through the ECAM process.
 - (b) New Cross Grid - This project will provide enhanced traction supply capacity to support the train lengthening and frequency requirements of train services. Whilst expenditure in the year was lower than the regulator assumed it was in line with Network Rail's internal plan. Expenditure is expected to be in line with the funding set through the ECAM process over the course of the programme.
- (8) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the PR13 column values in this statement. Notable variance between the funding available and actual spend in 2014/15 in these areas are noted below:
 - (a) Kent Power Supply Upgrade – although expenditure was higher than the PR13 it was in line with Network Rail's internal target. Network Rail's total projected costs for this programme are in line with the regulatory allowance but it is assuming a different delivery profile.
- (9) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
 - (a) Seven day railway projects – Network Rail has invested this fund quicker than the regulator assumed in the first year of the control period. The seven day railway programme was also available in control period 5 meaning the company has a mature governance process for identifying appropriate projects. This has allowed Network Rail to accelerate funding from future years in order to gain maximum benefit of this fund by investing at the start of the control period.

Statement 3: Analysis of enhancement capital expenditure, Kent - continued

In £m 2014-15 prices unless stated

- (b) R&D allowance – the regulator assumed that Network Rail would invest this fund evenly over the control period. However, Network Rail have spent more slowly in the first year of the control period as it seeks to identify those schemes which will deliver maximum benefit to the industry. The R&D allowance is a new principle for control period 5 so Network Rail is considering the optimal use of this funding allowance.
 - (c) Depots and stabling – the regulator assumed that activity in this category will be substantially weighted towards future years of the control period whereas Network Rail is planning a more even phasing of expenditure.
 - (d) Income generating property schemes – Network Rail invested more in its commercial property estate than the regulator assumed. This was largely due to development works at London Bridge.
 - (e) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
- (a) Government sponsored – as expected, this is significantly lower than last year. Most of the large programmes funded through this mechanism last year (such as Crossrail) have specific funding in the PR13 regulatory settlement and so the activity is included in the PR13 section of this statement. Intuitively, towards the end of a control period it would be likely that this level of expenditure would be relatively high as most programmes that emerge during the control period are likely to be funded through this mechanism.
 - (b) Network Rail Spend to save – acquisition of freight sites and paths. Most of the costs of these acquisitions were incurred in control period 4 and included in last year's Regulatory financial statements.

Statement 4: Net debt and financial ratios, Kent

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	2,590	2,575	(15)
Income			
Grant income	(302)	(300)	2
Fixed charges	(27)	(27)	-
Variable charges	(86)	(82)	4
Other single till income	(89)	(94)	(5)
Total income	(504)	(503)	1
Expenditure			
Network operations	39	36	(3)
Support costs	34	40	6
Traction electricity, industry costs and rates	62	55	(7)
Network maintenance	96	79	(17)
Schedule 4	14	15	1
Schedule 8	21	-	(21)
Renewals	231	222	(9)
PR13 enhancement	521	529	8
Non-PR13 enhancement	7	-	(7)
Total expenditure	1,025	976	(49)
Financing			
Interest expenditure on nominal debt - FIM covered	42	46	4
Interest expenditure on index linked debt - FIM covered	20	20	-
Expenditure on the FIM	31	32	1
Interest expenditure on government borrowing	8	-	(8)
Interest on cash balances held by Network Rail	(1)	(1)	-
Total interest costs	100	97	(3)
Accretion on index linked debt - FIM covered	19	41	22
Total financing costs	119	138	19
Corporation tax	-	-	-
Other	36	45	9
Movement in net debt	676	656	(20)
Closing net debt	3,266	3,231	(35)

D) Financial indicators

	2014-15 Actual	2014-15 PR13
Adjusted interest cover ratio (AICR)	0.49	0.91
FFO/interest	2.37	2.86
Net debt/RAB (gearing)	72.6%	73.3%
FFO/debt	7.3%	8.6%
RCF/debt	4.2%	5.6%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.2%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

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

In £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Debt attributable to Kent has increased by nearly £700m during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is around £35m higher than the regulator assumed. This is mostly due to higher investment in the railway network, higher performance regime costs and higher than assumed opening net debt partly offset by lower than expected interest costs and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.

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

In £m nominal unless otherwise stated

- b. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- c. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- d. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(14) 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 April 2014. ****Retained cash flow (RCF) is defined as FFO minus net interest.

(15) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected East Midlands route would not cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). The AICR ratio is lower than the regulator expected due to higher Schedule 8 and Network Maintenance costs partly offset by Support costs saving.

(16) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is slightly lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m.

in £m 2014-15 prices unless stated

[illegible]

Statement 5a: Total financial performance, Kent - continued

in £m 2014-15 prices unless stated

Breakdown of variance not included in total financial performance - Variable income:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustments for external traction electricity	(41)	(35)	(6)	(41)	(35)	(6)
Total variance not included in total financial performance:	(41)	(35)	(6)	(41)	(35)	(6)

Breakdown of variance not included in total financial performance - Support costs:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Release of CP4 long distance financial penalty provision	2	-	2	2	-	2
Total variance not included in total financial performance:	2	-	2	2	-	2

Breakdown of variance not included in total financial performance - Traction electricity:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustments for external traction electricity	41	35	6	41	35	6
Total variance not included in total financial performance:	41	35	6	41	35	6

Statement 5a: Total financial performance, Kent - continued

In £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes (such as Thameslink) have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Variable income – financial underperformance has been delivered as a result of decreased capacity charges as assumptions about train miles growth and rates did not materialise in line with expectation. The amounts in column A and B do not include income from traction electricity. Instead, this income is netted off against the traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (3) The underperformance recognised in Other single till income is mainly the result of lower property sales compared to the regulator's determination.
- (4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. Adjusting for these items results in no financial under or out performance recognised through the Opex memorandum for 2014/15.
- (5) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate. The determination assumed that Network Rail would exit the control period with a lower cost base. However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a higher cost base than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely.

Statement 5a: Total financial performance, Kent – continued

In £m 2014-15 prices unless stated

- (6) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (7) Industry costs and rates – variances to the regulator's determination relate to some minor differences for Business rates and ORR licence fee and railway safety levy. As these amounts are expected to be recoverable through the Opex memorandum they are excluded from the assessment of financial performance.
- (8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (9) Network maintenance – costs are higher than the determination. A notable contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs. Additional Network maintenance costs were incurred relating to a commercial claim for the costs of restoring a property Network Rail holds on a long-term lease. Also, additional spend was undertaken on winter resilience items to mitigate train performance issues and so Schedule 8 costs. Although exceptional levels of snow and ice were not experienced overall, they were spread over a number of days which increases the costs of pre-emptive works. Lastly, additional resource was consumed by the London Bridge depot following management's decision to invest in this area to improve performance on this part of the network.
- (10) Schedule 4 costs – costs were lower than the regulator assumed. However, not all of these savings have been classed as FPM. Schedule 4 possessions costs are incurred as a result of the level of renewals work undertaken. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to Schedule 4 so that a fair assessment of financial performance can be made.
- (11) Schedule 8 costs – the additional cost compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. To bridge this gap in a single year was always going to be unlikely. As a result of this, schedule 8 compensation payments to operators have been higher than ORR assumed. Issues around the London Bridge area contributed to lower than planned performance as did the volume of activity on this congested part of the network.
- (12) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (13) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions. In Kent, the Thameslink programme is subject to its own protocol which dictates the level of under/ out performance that is retained by Network Rail.

Statement 5a: Total financial performance, Kent – continued

In £m 2014-15 prices unless stated

- (14) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (15) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Kent were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Kent also faces a reduction for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Kent were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Kent also faces a reduction for this missed output.

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

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	14	34	(20)	(5)		(4)	(1)	-
Signalling	2	26	(24)	(6)		(3)	(3)	-
Civils	(6)	6	(12)	(3)		(1)	(2)	-
Buildings	(10)	(6)	(4)	(1)		-	(1)	-
Electrical power and fixed plant	30	34	(4)	(1)		-	(1)	-
Telecoms	(1)	(1)	-	-		-	-	-
Wheeled plant and machinery	5	5	-	-		-	-	-
IT	(4)	(4)	-	-		-	-	-
Property	3	3	-	-		-	-	-
Other renewals	(42)	(38)	(4)	(1)		-	(1)	-
Total	(9)	59	(68)	(17)		(8)	(9)	-

Where:

C = A - B

D = C x 25%

And:

D = E + F + G

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

In £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable financial underperformance in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Costs in the current year have also suffered from contractor productivity issues as Network Rail has reduced the number of delivery partners it uses as part of its framework contracts which has led to some problems managing the workbanks delivered by those contractors not being retained. Cost improvements were planned to arise from using new technologies and working practices. Cost and budgetary pressures has also resulted in a reduction in volumes planned over the control period. However, there is not a proportionate link between reductions in volumes and reductions in cost and so falling volumes leads to an increase in average costs of each remaining job.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes, notably East Kent 2 programme. Signalling FPM has also been impacted by projects rolled over from CP4 for which the ORR has not provided any funding. Further delays in implementing NOS (Network Operation Strategy) projects has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned.
- (4) Civils – cost overruns across a number of projects have contributed to the negative Civils FPM this year. The route has experienced cost increases as the not all of the efficiencies targeted in the regulator's determination were achieved which, combined with the one-off cost increases on certain projects, resulted in negative FPM. Civils financial underperformance also includes additional costs that have arisen as a result of storm damage and other weather events. Whilst some of this work has been funded by external insurers, some has remained within the organisation. The extra costs of repairing these structures and earthworks is not included in the determination allowances but are required to be completed in order to preserve the operational capability of the railway network. Access constraints, worse than expected asset condition and noise mitigation measures due to local residents complaints have also led to delay and additional cost on Longfield & Samphire Hoe projects.
- (5) Buildings – financial underperformance mainly relates to completion of projects rolled over from CP4 for which no funding was provided by the regulator (including the settlement of commercial claims) and additional scope introduced in the current year to maintain an appropriate asset condition.
- (6) Electrical power and fixed plant –financial underperformance mainly relates to additional scope introduced in the current year to maintain an appropriate asset condition. In addition, management have made the decision to invest more in this area to improve performance.

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

In £m 2014-15 prices unless stated

- (7) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. Whilst some of these additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan, (notably FTN) have emerged in 2014/15. As not all of these CP4 rollover projects have finished not all of the expected FPM has been recognised in 2014/15. As these projects complete in the next couple of years additional negative FPM will crystallise later in the control period.

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

in £m 2014-15 prices unless stated

	Variance to adjusted PR13	Variance due to ECAM adjustment	2014-15 Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Thameslink	(58)	-	8	-	(66)	(11)
Kent traction power supply upgrade	3	(5)	(2)	-	-	-
East Kent resignalling phase 2	6	8	14	-	-	-
New Cross Grid	13	(1)	12	-	-	-
Other Enhancements	42	-	42	-	-	-
Total	6	2	74	-	(66)	(11)

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

In £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) Thameslink – programme costs are now expected to be higher than the funding allowance in the PR13. This increase is mostly due to the works around the London Bridge area (track, signalling and station works). Under the terms of the protocol arrangement with DfT, Network Rail retains a certain percentage of any overspend up to a certain value, at which stage the percentage changes. Therefore, the FPM impact for the Thameslink overspends is not in line with the usual 25 per cent for enhancements overspends.

Statement 5d: REBS Reconciliation, Kent

in £m 2014-15 prices unless stated

	A	B	Cumulative to 2014-15		E	F	G
			C	D			
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	10	11	(1)	-	-	-	(1)
Capacity charge	19	21	(2)	-	-	-	(2)
Electricity asset utilisation charge	1	1	-	-	-	-	-
Property income [2]	38	40	(2)	-	-	-	(2)
Expenditure							
Network operations	39	34	(5)	-	-	-	(5)
Support costs	34	45	11	-	2	-	9
RSSB and BT Police	6	5	(1)	-	-	-	(1)
Network maintenance	96	80	(16)	(2)	-	-	(14)
Schedule 4 costs	14	17	3	3	-	-	-
Schedule 8 costs	21	-	(21)	-	-	-	(21)
Renewals [2]	231	202	(29)	39	-	(51)	(17)
Total REBS performance			(63)	40	2	(51)	(54)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(9)
Under-delivery of train performance requirements (CaSL)							(3)
Total adjustment for under delivery of outputs and reduced sustainability							(12)
Cumulative performance to end of 2014-15							(66)
Net REBS performance for 2014-15							(66)

Where: $C = B - A$

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

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

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

In £m 2014-15 prices unless stated

Notes:

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

Statement 6a: Analysis of income, Kent

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	302	300	2	280
Franchised track access income				
Fixed charges	27	27	-	96
Variable charges				
Variable usage charge	9	9	-	9
Traction electricity charges	41	35	6	34
Electrification asset usage charge	1	1	-	1
Capacity charge	19	21	(2)	13
Station usage charge	-	-	-	-
Schedule 4 net income	16	16	-	2
Schedule 8 net income	-	-	-	-
Total Variable charges income	86	82	4	59
Total franchised track access income	113	109	4	155
Total franchised track access and grant income	415	409	6	435
Other single till income				
Property income	39	45	(6)	42
Freight income	1	2	(1)	1
Open access income	-	-	-	-
Stations income	29	27	2	27
Facility and financing charges	-	1	(1)	-
Depots Income	7	7	-	7
Other income	13	12	1	11
Total other single till income	89	94	(5)	88
Total income	504	503	1	523

Statement 6a: Analysis of income, Kent - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Fixed charges – fixed charge income was in line with the determination. Fixed charges cannot be compared to the prior year figure in a meaningful way. The amount of fixed charge income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The decrease in fixed charges compared to 2013/14 is partly offset by higher grant income received from government. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is higher than the determination due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. However this is balanced by an overspend on electricity costs (as shown in Statement 7a). Traction electricity charges are higher than the previous year which matches the year-on-year increase in costs shown in Statement 7a.
- (5) Capacity charge - this is lower than the determination because growth in passenger volumes was lower than the regulator assumed. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore the in year figure cannot be compared to 2013/14 in a meaningful way.

Statement 6a: Analysis of income, Kent - continued

In £m 2014-15 prices unless stated

- (6) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is significantly higher than the 2013/14 value. This is due to changes in the Schedule 4 compensation rates in control period 5 compared to control period 4, which also results in changes in the access charge supplement payable by operators.
- (7) Property income – this is lower than the determination due to both lower rental income and lower property sales. Lower rental income is mostly due to differences between the assumptions made by the regulator about rental yields in 2014/15 compared to the current market position. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.
- (8) Other – this mostly consists of amounts earned from Network Rail's operation and maintenance of the High Speed 1 part of the network. Unlike the rest of the network, Network Rail does not own this under its licence but manages the operation and maintenance of the line on behalf of a third party (High Speed 1 Limited). The income received from this is included in Other and is all recorded in Kent to reflect the geographic location of the High Speed 1 line. The amounts Network Rail can charge High Speed 1 Limited are subject to a separate price control determination undertaken by ORR.

Statement 6b: Analysis of other single till income, Kent (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property Income				
Property rental	38	43	(5)	44
Property sales	1	6	(5)	(2)
Adjustment for commercial opex	-	(4)	4	-
Total property income	39	45	(6)	42
Freight income				
Freight variable usage charge	1	1	-	1
Freight traction electricity charges	-	-	-	-
Freight electrification asset usage charge	-	-	-	-
Freight capacity charge	-	1	(1)	-
Freight only line charge	-	-	-	-
Freight specific charge	-	-	-	-
Freight other income	-	-	-	-
Freight coal spillage charge	-	-	-	-
Total freight income	1	2	(1)	1
Open access income				
Variable usage charge income	-	-	-	-
Open access capacity charge	-	-	-	-
Open access traction electricity charges	-	-	-	-
Fixed contractual contribution	-	-	-	-
Open access other income	-	-	-	-
Total open access income	-	-	-	-
Stations income				
Managed stations income				
Long term charge	3	3	-	2
Qualifying expenditure	5	4	1	5
Total managed stations income	8	7	1	7
Franchised stations income				
Long term charge	13	12	1	14
Stations lease income	8	8	-	6
Total franchised stations income	21	20	1	20
Total stations income	29	27	2	27
Facility and financing charges				
Facility charges	-	1	(1)	-
Crossrail finance charge	-	-	-	-
Welsh Valleys finance charge	-	-	-	-
Total facility and financing charges	-	1	(1)	-
Depots income	7	7	-	7
Other	13	12	1	11
Total other single till income	89	94	(5)	88

Statement 6b: Analysis of other single till income, Kent – (unaudited) continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	10	19	9	7
Signalling shift managers	4	1	(3)	3
Local operations managers	3	1	(2)	7
Controllers	2	3	1	1
Electrical control room operators	2	1	(1)	8
Total signaller expenditure	21	25	4	26
Non-signaller expenditure				
Mobile operations managers	3	3	-	3
Managed stations	4	3	(1)	4
Performance	-	1	1	3
Customer relationship executives	-	1	1	1
Route enhancement managers	-	-	-	-
Weather	8	2	(6)	-
Other	1	1	-	1
Operations delivery	1	-	(1)	-
HQ - Operations services	-	-	-	-
HQ - Performance and planning	-	-	-	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	3	2	(1)	3
Other operating income	(2)	(2)	-	-
Total non-signaller expenditure	18	11	(7)	15
Total network operations expenditure	39	36	(3)	41
Support costs				
Core support costs				
Human resources	3	5	2	4
Information management	3	5	2	4
Government and corporate affairs	1	2	1	1
Group strategy	1	1	-	1
Finance	1	2	1	1
Business services	1	1	-	2
Accommodation	15	11	(4)	5
Utilities	3	3	-	3
Insurance	3	3	-	2
Legal and inquiry	-	-	-	-
Safety and sustainable development	2	1	(1)	1
Strategic sourcing	1	1	-	1
Business change	-	-	-	-
Other corporate functions	1	-	(1)	2
Core support costs	35	35	-	27
Other support costs				
Asset management services	2	1	(1)	4
Network Rail telecom	3	3	-	3
National delivery service	-	1	1	-
Investment projects	(1)	-	1	(3)
Commercial property	(1)	-	1	3
Group costs	(4)	-	4	9
Total other support costs	(1)	5	6	16
Total support costs	34	40	6	43
Traction electricity, industry costs and rates				
Traction electricity	43	38	(5)	37
Business rates	11	10	(1)	10
British transport police costs	5	5	-	5
RSSB costs	1	1	-	1
ORR licence fee and railway safety levy	2	1	(1)	1
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
Total traction electricity, industry costs and rates	62	55	(7)	54
Total network operations expenditure, support costs, traction electricity, industry costs and rates	135	131	(4)	138

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

In £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 with a lower Network Operations cost base than they did as efficiencies that were expected to occur in the final years of CP4 did not materialise. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, there have been delays implementing efficiency strategies in the current year. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that ceteris paribus, costs would exceed the regulatory allowance for 2014/15. Costs are lower than the previous year reflecting some efficiencies made in this area during the year and the impact of non-recurring items in 2013/14.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (one-off movements in Group).
- (5) Human Resources - costs are noticeably lower than the determination and the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Further breakdown of HR costs can be found in Statement 7b.
- (6) Accommodation – these property expenses were higher than the determination due to Network Rail utilising a more expensive property portfolio than the regulator assumed. The regulator assumed that costs attributable to Kent would increase this control period but the rate of increase was higher. This was mostly due to new office space being acquired in central London at higher rents than the regulatory determination assumed

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

In £m 2014-15 prices unless stated

- (7) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (8) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher electricity charges.
- (9) Traction electricity – costs are in line with the prior year but significantly higher than the determination. Network Rail has limited ability to influence traction electricity costs which are driven by the prevailing market rates of these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in the financial year are higher than the determination due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also higher than the Regulator assumed.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Kent (unaudited)

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	19	17
Operations and customer services non-signalling	-	-
MOMS	3	3
Control	3	2
Planning & Performance Staff Costs	3	1
Managed Stations Staff Costs	1	2
Operations Management Staff Costs	2	-
Other	10	15
Total operations & customer services costs	41	40
Total Network Operations	41	40
Support		
Human resources		
Functional support	2	-
Training (inc Westwood)	1	1
Graduates	-	-
Apprenticeships	-	1
Other	1	1
Total human resources	4	3
Information management		
Support	1	-
Projects	-	-
Licences	-	-
Business operations	3	3
Other	-	-
Total information management	4	3
Finance	1	1
Business Change	-	-
Contracts & procurement	1	-
Strategic Sourcing (National Supply Chain)	-	1
Planning & development	1	1
Safety & compliance	1	-
Other corporate services	3	1
Commercial property	8	14
Infrastructure investments/projects	(3)	(1)
Route Services	1	1
Asset management & Engineering/Asset heads	10	-
National delivery service	-	-
Private party	-	-
Utilities	-	3
Network Rail Telecom	-	3
Digital Railway	-	1
Safety Technical & Engineering	-	4
Government & Corporate Affairs	-	1
Business Services	-	1
Route Asset Management	-	(2)
Legal and inquiry	-	-
Group/central	-	-
Pensions	-	-
Insurance	2	3
Redundancy/reorganisation costs	5	1
Staff incentives/Bonus Reduction	-	(2)
Accommodation & Support Recharges	-	(2)
Vehicle lease recoveries	-	-
ORR financial penalty	5	(2)
Other	-	1
Total group/central costs	12	(1)
Total support	43	34
Total network operations and support costs	84	74

Statement 7b: Analysis of network operations expenditure and support costs by activity, Kent (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	38	27	(11)	33
Signalling	16	13	(3)	12
Civils	8	11	3	13
Buildings	8	4	(4)	7
Electrical power and fixed plant	7	5	(2)	9
Telecoms	2	2	-	2
Other network operations	14	12	(2)	8
Asset management services	2	2	-	2
National Delivery Service	-	3	3	1
Property	2	1	(1)	-
Group	(1)	(1)	-	(1)
Total maintenance expenditure	96	79	(17)	86

Statement 8a: Summary analysis of network maintenance expenditure, Kent - continued

In £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are higher than the determination and the prior year. A notable contributor to this was Network Rail's decision to reduce the level of incentive payouts to senior management and instead, re-invest this money into programmes to improve the safety and performance of the network. A significant amount was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network maintenance to reflect the most appropriate classification of the activity. Additional Network maintenance costs were incurred relating to a commercial claim for the costs of restoring a property Network Rail holds on a long-term lease. Also, additional spend was undertaken on winter resilience items to mitigate train performance issues and so Schedule 8 costs. Although exceptional levels of snow and ice were not experienced overall, they were spread over a number of days which increases the costs of pre-emptive works. Lastly, additional resource was consumed by the London Bridge depot following management's decision to invest in this area to improve performance on this part of the network
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Therefore, Network Rail were planning to have higher track maintenance costs than the PR13 even if National Delivery Services were not off-charged. Kent route management team also made a decision to spend more on track resilience programmes to reduce the risk of track defects and improve performance.
- (4) Civils – costs were lower than the determination mainly as a result of a lower level of Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. Most of the variance is due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are lower than the prior year mostly due to a lower level of Reactive Maintenance required this year compared to 2013/14.

Statement 8a: Summary analysis of network maintenance expenditure, Kent - continued

In £m 2014-15 prices unless stated

- (5) Buildings – there were no maintenance costs for Buildings reported in last year's Regulatory financial statements as the regulator chose to fund reactive maintenance works through Renewals last control period whereas this year, to be consistent with International Accounting Standards (IAS), these costs are accounted for as maintenance. The prior year has been restated to reflect these changes and provide a like-for-like comparison. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance between the actual and PR13 in the year is mostly due to differences in the reactive maintenance spend which has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (6) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category and accounts for the spend being higher than the regulator's assumption in 2014/15. Costs are noticeably higher than 2013/14 which is a combination of the investment in the programmes noted above and a significant increase in the asset management organisation within the routes. As part of the move towards a devolved, more accountable railway the capabilities and responsibilities of the local asset management teams have increased significantly since 2013/14, as planned in Network Rail's plans for CP5, and reflected in the expenditure allowances set by the regulator.
- (7) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year.

Statement 9a: Summary analysis of renewals expenditure, Kent

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	43	57	14	44
Signalling	62	64	2	26
Civils	41	35	(6)	69
Buildings	21	11	(10)	34
Electrical power and fixed plant	18	48	30	37
Telecoms	5	4	(1)	12
Wheeled plant and machinery	5	10	5	3
Information Technology	10	6	(4)	7
Property	1	4	3	4
Other renewals	25	(17)	(42)	13
Total renewals expenditure	231	222	(9)	249

Statement 9a: Summary analysis of renewals expenditure, Kent - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – track costs are lower than the regulator assumed. This is a combination of slippage of volumes and higher than expected underlying costs. Network Rail's planned expenditure this year expected an overspend of approximately £15m on a like-for-like basis. This higher cost was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual costs were higher than Network Rail planned partly due to contractor dispute issues (partly as a result of productivity problems arising from rationalising the supplier base) and lower than expected efficiencies from new productivity initiatives. Track non-volume consists of Fencing and Slab track and is noticeably lower than the regulator assumed but, as Statement 14 shows, in line with Network Rail's own plan. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Activity was lower than planned due to difficulties in securing the necessary possessions and access (especially on the Thameslink connected sites). Expenditure was in line with the previous financial year.
- (3) Signalling – overall, expenditure was slightly lower than the determination expected. However, this was largely due to deferral of activity, which was partly offset by higher than expected costs on a like for like basis. Expenditure was higher than the determination on Full conventional resignalling but lower on Partial and Targeted resignalling. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is much higher than the previous year due to differences in the workbank being delivered in CP5 compared to CP4.

Statement 9a: Summary analysis of renewals expenditure, Kent - continued

In £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spend more on civils this year than the regulatory assumption. Civils underbridges – expenditure was lower than the regulator assumed largely due to a re-profiling of volumes until later years of the control period. Earthworks expenditure is higher than the regulator's assumption due to increased amounts of emergency works. The extreme weather in 2013/14 impacted upon the railway infrastructure requiring remedial costs which have been recognised in the current year. Expenditure is noticeably lower than the previous year. In CP4 Government provided some additional funds for accelerated civils expenditure as part of a fiscal stimulus package for the economy. In addition, the extreme weather in 2013/14 necessitated a great deal of emergency works to be carried out in that year.
- (5) Buildings – expenditure in the year was higher than the determination. The main reason for this is increased spending on Managed Stations, largely due to re-profiling of activity within the control period. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4. Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (6) Electrical power and fixed plant – expenditure in the year was noticeable lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant, DC Distribution, System Capability & SCADA as Network Rail seeks to find optimal delivery strategies for these programmes. There was also slippage in the Kent DC distribution project with CP4 rollover amounts (refer to Other renewals) not fully utilised. Delays in awarding framework contracts has also led to workbank delays and concentration on completing CP4 programmes has reduced scope to deliver CP5 items. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (7) Telecoms – expenditure in the year was slightly above the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. Largest contributor to the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5). Expenditure is higher than the previous year due to additional High output plant purchases and increased spend on Intervention items.
- (9) Information technology – investment in the year is higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.

Statement 9a: Summary analysis of renewals expenditure, Kent - continued

In £m 2014-15 prices unless stated

(10) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, although there has been spend on ORBIS this year, as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- d. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. Expenditure in some of these areas has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

Statement 9b: Detailed analysis of renewals expenditure, Kent (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	21	22	1
High output renewal	-	-	-
Plain line refurbishment	3	4	1
S&C renewal	11	13	2
S&C refurbishment	2	6	4
Track non-volume	1	4	3
Off track	5	8	3
Total track	43	57	14
Signalling			
Full conventional resignalling	56	33	(23)
Modular resignalling	-	-	-
ERTMS resignalling	-	-	-
Partial conventional resignalling	-	3	3
Targeted component renewal	-	10	10
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	-	-	-
Operating strategy other capital expenditure	-	3	3
Level crossings	2	4	2
Minor works	4	8	4
Centrally managed costs	-	3	3
Total signalling	62	64	2
Civils			
Underbridges	9	18	9
Overbridges	2	1	(1)
Bridgeguard 3	-	-	-
Major structures	2	-	(2)
Tunnels	1	2	1
Other assets	4	3	(1)
Structures other	3	3	-
Earthworks	20	8	(12)
Other	-	-	-
Total civils	41	35	(6)
Buildings			
Managed stations	10	1	(9)
Franchised stations	8	7	(1)
Light maint depots	-	-	-
Depot plant	-	2	2
Lineside buildings	2	-	(2)
MDU buildings	1	1	-
NDS depots	-	-	-
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	21	11	(10)

Statement 9b: Detailed analysis of renewals expenditure, Kent (unaudited) - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	1	-	(1)
Overhead Line	-	-	-
DC distribution	6	26	20
Conductor rail	2	6	4
SCADA	-	4	4
Energy efficiency	-	-	-
System capability / capacity	2	7	5
Other electrical power	6	1	(5)
Fixed plant and rail heating	1	4	3
Total electrical power and plant	18	48	30
Telecoms			
Operational communications	-	-	-
Network	-	1	1
SISS	1	1	-
Projects and other	-	-	-
Non-route capital expenditure	4	2	(2)
Total telecoms	5	4	(1)
Wheeled plant and machinery			
High output	1	5	4
Incident response	-	1	1
Infrastructure monitoring	1	-	(1)
Intervention	-	2	2
Materials delivery	2	-	(2)
On track plant	-	-	-
Seasonal	-	2	2
Locomotives	-	-	-
Fleet support plant	-	-	-
Road vehicles	1	-	(1)
S&C delivery	-	-	-
Total wheeled plant and machinery	5	10	5
Information Technology			
IM delivered renewals	9	5	(4)
Traffic management	1	1	-
Total information technology	10	6	(4)
Property			
MDUs/offices	1	3	2
Commercial estate	-	1	1
Corporate services	-	-	-
Total property	1	4	3
Other renewals			
Asset information strategy	-	4	4
Intelligent infrastructure	1	1	-
Faster isolations	-	2	2
LOWS	-	-	-
Small plant	-	1	1
Research and development	-	-	-
Phasing overlay	-	(25)	(25)
Engineering innovation fund	-	-	-
CP4 rollover	24	-	(24)
Other	-	-	-
West Coast	-	-	-
Total other renewals	25	(17)	(42)
Total renewals	231	222	(9)

Statement 9b: Detailed analysis of renewals expenditure, Kent (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Kent

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	14	15	1	6
Access charge supplement Income	(16)	(16)	-	(2)
Net (income)/cost	(2)	(1)	1	4
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	21	-	(21)	17
Access charge supplement Income	-	-	-	-
Net (income)/cost	21	-	(21)	17

B) Opex memorandum account

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

Statement 10: Other information, Kent - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are broadly in line with the determination this year. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the in-year cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2014/15. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2014/15 unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the year, with the majority of delay minutes being associated with infrastructure failures and issues around London Bridge (caused in part by the Thameslink programme). Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. The modelled train path assumptions relating to the additional network traffic as a result of the increased frequency in Thameslink services has proved to be optimistic which has resulted in higher than expected delays, and so Schedule 8 costs. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the in-year cost cannot be compared to the 2013/14 number in a meaningful way.
- (3) The opex memorandum currently shows a minor net income. This means that Network Rail's income in the PR18 will be adjusted to reflect this subject to the regulator's overall funding decisions for CP6.

Statement 12: Volume incentives, Kent

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year	2013-14 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	-	-	20	20	0.2%	1.46	pence per passenger train mile
Passenger farebox (millions)	3	-	840	799	2.2%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(1)	-	-	-	1.3%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	-	-	423	446	2.0%	2.50	pence per freight 1,000 gross tonne mile
Total volume incentive	2	-					-

The cumulative volume incentive is determined by the following calc $[At - (Bt - 1 \times (1 + Ct))] \times D \times 5$

Where:

At = Actual in year quantity

B = 2014-15 baseline

Ct = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Kent - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Kent

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	5,030	271	1,363	-	1,363	460	-	189	n/a
MNT005	Plain Line Stoneblowing (km)	km	6,000	85	510	-	510	238	-	153	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	135	1,572	213	-	213	856	-	(716)	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	301	635	191	-	191	640	-	5	n/a
MNT007	S&C Tamping (point end)	Point end	2,755	139	383	-	383	218	-	79	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	390	1,281	499	-	499	1,610	-	329	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	92	6,569	602	-	602	7,515	-	946	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	4,211	19	80	-	80	89	-	70	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	3	167,578	457	-	457	284,000	-	116,422	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	10	23,574	243	-	243	10,400	-	(13,174)	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	13	134,330	1,698	-	1,698	94,584	-	(39,746)	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	16	4,162	68	-	68	5,600	-	1,438	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	17,727	66	1,170	-	1,170	70	-	4	n/a
MNT122	S&C Maintenance (point end)	Point end	59	10,278	608	-	608	24,344	-	14,066	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	14,500	54	783	-	783	67	-	13	n/a
MNT124	S&C Stoneblowing (point end)	Point end	19,667	6	118	-	118	46	-	40	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	333	-	-	-	518	-	185	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	147	-	-	-	180	-	33	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	25	19,955	505	-	505	24,449	-	4,494	n/a
MNT073	Drainage (Yard)	Yard	10	13,735	136	-	136	27,046	-	13,311	n/a
MNT075	LX Management - Off Track (Each)	Each	599	586	351	-	351	730	-	144	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	91	817	74	-	74	1,636	-	819	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	-	-	-	-	-	2,208	-	2,208	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	4	273,940	959	-	959	209,703	-	(64,237)	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	-	-	12	-	12	107	-	107	n/a
N/A	Non volume track and off-track maintenance	£m				27,303	27,303				n/a
Total track and off-track maintenance					11,023	27,303	38,326		27,561		(10,765)
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				15,722	15,722			-	n/a
Total signalling maintenance						15,722	15,722		12,507		(3,215)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Kent - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

				Actual		Network Rail Business Plan		Difference to Business Plan			
		In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost	
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	10,631	-	-	-	11,250	-	619	n/a
MNT221	Detailed Examinations	No.	-	486	-	-	-	650	-	164	n/a
MNT222	Underwater Examination	No.	-	113	-	-	-	34	-	(79)	n/a
MNT223	Ancillary Structure examination	No. detailed	-	6	-	-	-	13	-	7	n/a
MNT224	Hidden critical element examinations	No.	-	53	-	-	-	142	-	89	n/a
MNT225	Load carrying assessment	No. spans	-	712	-	-	-	1,213	-	501	n/a
MNT226a	Visual Examinations (Civils)	No.	-	4,603	-	-	-	4,808	-	205	n/a
N/A	Non volume civils maintenance	£m				7,932	7,932			-	n/a
Total civils maintenance						7,932	7,932		10,745		2,813
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	1,102	-	-	-	162	-	(940)	n/a
MNT227	5 yearly examinations	Each	-	30	-	-	-	57	-	27	n/a
N/A	Non volume buildings maintenance	£m				7,737	7,737			-	n/a
Total buildings maintenance						7,737	7,737		3,932		(3,805)
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	41	30,941	1,267	-	1,267	15,281	-	(15,660)	n/a
MNT209	Maintain DC Traction Power Supplies	Each	101	5,591	563	-	563	4,575	-	(1,016)	n/a
MNT211	Maintain OHL Components	Various	83	12	1	-	1	123	-	111	n/a
MNT212	Maintain Points Heating	Each	59	9,465	559	-	559	7,753	-	(1,712)	n/a
MNT213	Maintain Signalling Power Supplies	Number	65	340	22	-	22	4,186	-	3,846	n/a
Non volume electrical power and fixed plant maintenance											
N/A		£m				4,573	4,573			-	n/a
Total electrical power and fixed plant maintenance						2,412	4,573	6,985	5,516		(1,469)
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				1,860	1,860			-	n/a
Total telecoms maintenance						1,860	1,860		2,181		321
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				13,766	13,766			-	n/a
Total other network operations maintenance						13,766	13,766		11,819		(1,947)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Kent - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				1,911	1,911			-	n/a
Total asset management services maintenance						1,911	1,911		2,469		558
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(362)	(362)			-	n/a
Total national delivery service maintenance						(362)	(362)		3,132		3,494
Property maintenance											
N/A	Non volume property maintenance	£m				2,583	2,583			-	n/a
Total property maintenance						2,583	2,583		751		(1,832)
Group maintenance											
N/A	Non volume group maintenance	£m				(1,213)	(1,213)			-	n/a
Total group maintenance						(1,213)	(1,213)		(1,226)		(13)
Total							95,247		79,387		(15,860)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Kent - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	ckm	533	45	24	-	24	494	79	39	-	39	(40)	34	15	-	15
	Conventional		700	30	21	-	21	577	52	30	-	30	(123)	22	9	-	9
	High Output		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Refurbishment		200	15	3	-	3	333	27	9	-	9	133	12	6	-	6
	S&C	point enc	188	69	13	-	13	216	97	21	-	21	28	28	8	-	8
	Track Drainage		-	105	-	-	-	1	5,968	3	-	3	1	5,863	3	-	3
	Renewal	lm	-	105	-	-	-	-	5,089	-	-	-	-	4,984	-	-	-
	Refurbishment	lm	-	-	-	-	-	-	197	-	-	-	-	197	-	-	-
	New Build	lm	-	-	-	-	-	-	682	-	-	-	-	682	-	-	-
	Fencing		77	13	1	-	1	32	31	1	-	1	(45)	18	-	-	-
	Slab Track		-	-	-	-	-	(2)	-	-	1	1	(2)	-	-	1	1
	Off track		-	-	-	5	5	(6)	-	-	5	5	(6)	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					38	5	43			64	5	70			26	1	27
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	56	n/a	n/a	n/a	-	45	n/a	n/a	n/a	-	(11)
	Full conventional resignalling	SEU	-	-	56	-	56	-	-	33	-	33	-	-	(23)	-	(23)
	Modular resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	-	-	-	-	-	-	3	-	3	-	-	3	-	3
	Targeted component renewal	SEU	-	-	-	-	-	184	49	9	-	9	184	49	9	-	9
	Level crossings	No.	2,000	1	2	-	2	2,500	2	5	-	5	500	1	3	-	3
	Signalling other		-	-	-	4	4	-	-	-	11	11	-	-	-	7	7
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Operating strategy other capex		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Minor works		n/a	n/a	n/a	4	4	n/a	n/a	n/a	5	5	n/a	n/a	n/a	1	1
	Centrally managed costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					58	4	62			50	11	61			(8)	7	(1)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	14	n/a	n/a	n/a	-	24	n/a	n/a	n/a	-	10
	Underbridges	m2	5	1,899	9	-	9	1	22,252	20	-	20	(3)	20,353	11	-	11
	Overbridges (incl BG3)	m2	10	197	2	-	2	3	194	2	-	2	(7)	(3)	-	-	-
	Tunnels	m2	-	-	1	-	1	1	10,300	2	-	2	1	10,300	1	-	1
	Major structures	m2	-	-	-	2	2	-	-	-	-	-	-	-	-	(2)	(2)
	Other structures assets		n/a	n/a	n/a	-	4	n/a	n/a	n/a	-	4	n/a	n/a	n/a	-	-
	Culverts	m2	18	57	1	-	1	-	59	-	-	-	(18)	2	(1)	-	(1)
	Footbridges	m2	7	134	1	-	1	5	203	1	-	1	(3)	69	-	-	-
	Coastal & Estuary Defences	m	20	50	1	-	1	1	700	1	-	1	(19)	650	-	-	-
	Retaining Walls	m2	-	-	1	-	1	4	517	2	-	2	4	517	1	-	1
	Earthworks	5-chain	364	55	20	-	20	29	156	8	-	8	(334)	101	(12)	-	(12)
	EW Drainage		-	1,271	-	-	-	-	1,109	1	-	1	-	(162)	1	-	1
	Renewal	lm	-	8	-	-	-	-	380	-	-	-	-	372	-	-	-
	Refurbishment	lm	-	60	-	-	-	-	78	-	-	-	-	18	-	-	-
	Maintenance	lm	-	798	-	-	-	-	651	-	-	-	-	(147)	-	-	-
	New Build	lm	-	405	-	-	-	-	-	-	-	-	-	(405)	-	-	-
	Structures other		-	-	-	3	3	-	-	-	2	2	-	n/a	-	(1)	(1)
	Other		-	-	-	-	-	-	-	-	(5)	(5)	-	n/a	-	(5)	(5)
	Total				36	5	41			37	(3)	34			1	(8)	(7)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	8	-	n/a	n/a	n/a	10	n/a	n/a	n/a	-	2
	Footbridges	m2	3	703	2	-	2	-	910	n/a	n/a	-	n/a	207	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	1	828	1	-	1	-	360	n/a	n/a	-	n/a	(468)	n/a	n/a	-
	Platforms	m2	0	8,122	2	-	2	-	2,929	n/a	n/a	-	n/a	(5,193)	n/a	n/a	-
	Buildings	m2	-	65	-	-	-	-	385	n/a	n/a	-	n/a	320	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	3	3	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	10	-	n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	(9)
	Footbridges	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	63	126	8	-	8	-	-	n/a	n/a	-	n/a	(126)	n/a	n/a	-
	Lifts & Escalators	No.	333	3	1	-	1	-	-	n/a	n/a	-	n/a	(3)	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		-	90	-	-	-	-	-	-	-	-	n/a	(90)	n/a	n/a	-
	Buildings	m2	-	90	-	-	-	-	-	n/a	n/a	-	n/a	(90)	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lineside Buildings	m2	0	5,036	2	-	2	-	230	n/a	n/a	2	n/a	(4,806)	n/a	n/a	-
	MDU Buildings	m2	2	420	1	-	1	-	-	n/a	n/a	1	n/a	(420)	n/a	n/a	-
	Depot Plant		-	-	-	-	-	-	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	NDS Depots		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(4)	n/a	n/a	n/a	n/a	(4)
	Total				17	4	21			-	-	13			-	-	(8)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Overhead Line Equipment (OLE) Re-wiring	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
		wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Mid-life Refurbishment	runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	-	-	2	-	2	-	16	n/a	n/a	7	n/a	16	n/a	n/a	5
	AC distribution		-	-	-	-	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	6	-	-	n/a	n/a	25	n/a	n/a	n/a	n/a	19
	HV Switchgear Renewal	No.	-	-	-	1	1	-	2	n/a	n/a	-	n/a	2	n/a	n/a	-
	HV Cables	km	-	-	1	-	1	-	18	n/a	n/a	-	n/a	18	n/a	n/a	-
	LV Switchgear Renewal	No.	125	8	1	-	1	-	36	n/a	n/a	-	n/a	28	n/a	n/a	-
	LV Cables	km	333	6	2	-	2	-	10	n/a	n/a	-	n/a	4	n/a	n/a	-
	Transformer Rectifiers	No.	-	1	-	-	-	-	2	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	1	-	-	n/a	n/a	4	n/a	n/a	n/a	n/a	3
	Signalling Power Cable Renewal	km	-	-	-	-	-	-	9	n/a	n/a	-	n/a	9	n/a	n/a	-
	Principle Supply Point Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	-	-	-	-	-	21	n/a	n/a	-	n/a	21	n/a	n/a	-
	SCADA		-	-	-	-	-	-	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	Energy efficiency		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	System capability / capacity		-	-	-	2	2	-	-	n/a	n/a	7	n/a	n/a	n/a	n/a	5
	Other electrical power		-	-	-	6	6	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	(5)
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					6	12	18			-	-	47			-	-	29

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	1	-	-	-	-	1	n/a	n/a	n/a	n/a	-
	Customer Information Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Address	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	CCTV	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Clocks	No.	-	-	1	-	1	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Operational Comms		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
		No.															
	PABX Concentrator	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Processor Controlled	No.															
	Concentrator	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Emergency Telephone System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Projects and other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Non route capex		n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	(1)
Total					1	4	5			-	-	4			-	-	(1)

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

in £m 2014-15 prices unless stated

		2014-15										Difference to Business Plan						
		Actual					Network Rail Business Plan					Other non-volume costs						
Asset	Activity type	Unit	Unit cost	Volume	Unit cost	Other non-volume costs	Total Cost	Unit cost	Volume	Unit cost	Other non-volume costs	Total Cost	Unit cost	Volume	Unit cost	Other non-volume costs	Total Cost	
			£k/unit	unit	x volume	£m	£m	£k/unit	unit	x volume	£m	£m	£k/unit	unit	x volume	£m	£m	
Wheeled plant and machinery	High output		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4	
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Infrastructure monitoring		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)	
	Intervention		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	
	Materials delivery		n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)	
	On track plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)	
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-		
Total					-	5	5			-	10	10			-	5	5	
IT			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	IM delivered renewals		n/a	n/a	n/a	9	9	n/a	n/a	n/a	9	9	n/a	n/a	n/a	-	-	
	Traffic management		n/a	n/a	n/a	-	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	1	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Total					-	9	10			-	11	11			-	2	1	
Property	MDUs/offices		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	
	Commercial estate		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Total					-	1	1			-	3	3			-	2	2	
Other renewals	Asset information strategy		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4	
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	
	Faster isolations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	CP4 Rollover		n/a	n/a	n/a	24	24	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(24)	(24)	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	
	Total					-	25	25			-	10	10			-	(15)	(15)
	Total Renewals							231	263							-	32	
Regulatory Financial Statements							Control Period 5 - Year 1							4/6				

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

In £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (3) Track - Conventional - the reduced outturn in Conventional works is predominantly driven by access and resource issues. Obtaining possessions and access for the Thameslink-connected routes has proved problematic this year leading to re-profiling of activities into future years.
- (4) Track - Refurbishment - Refurbishment workbank was down from plan nationally following a re-profiling exercise undertaken to reevaluate long-term planning and deliverability.
- (5) Track - Switches & Crossings – volumes are delivered are below plan due to resource availability. Plans are being implemented to improve organisation capabilities, including additional training.
- (6) Track – Drainage – activity has been re-profiled into later years of the control period.
- (7) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (8) Signalling - Targeted Component Renewal - volumes are currently behind plan and from a route perspective this is due to works at Hastings being deferred pending proposed enhancements works which may negate the need for any renewals activity as the most efficient whole asset life solution.
- (9) Structures - Underbridges - workbank is below plan principally due to a marked deviation from the route top down modelling approach used to establish delivery plan volumes. Scheduled delivery has been significantly inhibited due to the late award of framework contracts to third parties. Whilst this has caused a delay in the current year it is expected that this will be mostly caught up over the remainder of the control period. Securing the appropriate framework contracts allows for the optimal delivery of the structures workbank during the CP5.
- (10) Structures - Tunnels - The workbanks is below plan. This is predominantly due to baseline discrepancies where the modelled baseline is not reflective of the granular workbank (Polehill tunnel). This scheme has now been rephased to later years as a result of a lost possession in year. Scheduled delivery has been significantly inhibited due to the late award of framework contracts to third parties. Whilst this has caused a delay in the current year it is expected that this will be mostly caught up over the remainder of the control period. Securing the appropriate framework contracts allows for the optimal delivery of the structures workbank during the CP5.
- (11) Structures - Footbridges - Footbridge volumes is less than Network Rail's published CP5 Business Plan as work has been re-profiled into later years of the control period.
- (12) Structures - Coastal & Estuarial Defences - Volumes are less than Network Rail's published CP5 Business Plan because the modelled baseline was evenly phased over the control period and this is no longer reflective of the granular work bank.

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

In £m 2014-15 prices unless stated

- (13) Structures - Retaining Walls - Volumes are below plan due to a number of on-going schemes which were forecast for staged completion and, whilst ongoing, are yet to substantially complete and so no volumes have been recognised in line with the policy agreed with the regulator.
- (14) Earthworks - volumes are below plan in the three core areas of embankments, rock cuttings and soil cuttings. The key drivers for these variances are delays associated with the finalisation of framework contracts (as noted above), the impact of resource and deliverability restrictions and the prioritisation of emergency works following the emergence of additional work following the impact of extreme weather in 2013/14 upon the railway infrastructure.
- (15) Buildings - Franchised Stations – Footbridge volumes are below plan due to the Hither Green scheme being deferred to next year to align with Access for All works. Increases in Platform and Canopies volumes are mostly due to works commenced in CP4 where the completion date slipped into CP5, meaning that the volumes were recognised this year (in line with volume recognition rules established with ORR).
- (16) Buildings - Managed Stations – Volumes are higher than plan due to re-profiling of activity within the control period.
- (17) Electrification - Conductor Rails - Early in CP5, a work bank review was carried out which determined that the first year of the control period was no longer deliverable due to insufficient development and the prioritisation of works originally planned for completion in CP4. Other elements of the workbank have been re-profiled or reprioritised accordingly. Delays in awarding framework contracts has also led to a back log of works which are expected to be caught up in forthcoming years.
- (18) Electrification - DC Distribution - Early in CP5, a work bank review was carried out which determined that the first year of the control period was no longer deliverable due to insufficient development and the prioritisation of works originally planned for completion in CP4. Other elements of the workbank have been re-profiled or reprioritised accordingly.
- (19) Electrification - Signalling Power Cables - Early in CP5, a work bank review was carried out which determined that the first year of the control period was no longer deliverable due to insufficient development and the prioritisation of works originally planned for completion in CP4. Other elements of the workbank have been re-profiled or reprioritised accordingly, including activity to coincide with Thameslink programme to reduce disruption.
- (20) Electrification - Points Heaters - Early in CP5, a work bank review was carried out which determined that the first year of the control period was no longer deliverable due to insufficient development and the prioritisation of works originally planned for completion in CP4. Other elements of the workbank have been re-profiled or reprioritised accordingly.

Statement 1: Summary regulatory financial performance, London North East

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	721	716	5	640
Fixed Income	65	64	1	262
Variable Income	169	158	11	117
Other Single Till Income	97	96	1	96
Opex memorandum account	(3)	-	(3)	-
Total Income	1,049	1,034	15	1,115
Operating expenditure				
Network operations	80	80	-	83
Support costs	67	78	11	97
Traction electricity, industry costs and rates	77	74	(3)	81
Network maintenance	151	163	12	203
Schedule 4	24	30	6	30
Schedule 8	(9)	1	10	45
Total operating expenditure	390	426	36	539
Capital expenditure				
Renewals	480	419	(61)	554
PR13 enhancement expenditure	252	373	121	315
Non PR13 enhancement expenditure	19	-	(19)	112
Total capital expenditure	751	792	41	981
Other expenditure				
Financing costs	248	295	47	267
Corporation tax (received)/paid	(1)	1	2	(1)
Rebates	-	-	-	20
Total other expenditure	247	296	49	286
Total expenditure	1,388	1,514	126	1,806

Statement 1: Summary regulatory financial performance, London North East – continued

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was higher than the determination mostly due to higher capacity charges and higher electricity costs which Network Rail could pass onto operators. This is offset by higher Operating expenditure. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is higher than the determination due to increased freight income partly offset by lower property income. This is set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – there is a minor amount reported this year. This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are in line with the determination and marginally lower than the previous year. More details are set out in more Statement 7a.
- (8) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher electricity costs which are largely recovered from operators through income. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are lower than the determination and the previous year which is mostly a result of doing less re-active work than planned. This is partly offset by investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination due to possession planning and execution efficiencies. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Operating expenditure - Schedule 8 costs are lower than the determination because of the better than planned train performance on the route. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspend expenditure and phasing of activity. These variances are set out in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure is lower than the determination. This is a combination of efficient overspend offset by re-profiling of programme delivery. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

Statement 1: Summary regulatory financial performance, London North East – continued

in £m 2014-15 prices unless stated

- (17) Other expenditure – Corporation tax - the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.
- (18) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

Statement 2a: RAB - regulatory financial position, London North East

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	8,353	8,353	-
Indexation to 2013-14 prices	221	221	-
Opening RAB for the year (2013-14 prices)	8,574	8,574	-
Indexation for the year	170	170	-
Opening RAB (2014-15 prices)	8,744	8,744	-
Adjustments for the actual capital expenditure outturn in			
CP4	249	-	249
Renewals	462	419	43
PR13 enhancements	250	287	(37)
Non-PR13 enhancements	17	-	17
Total enhancements	267	287	(20)
Amortisation	(426)	(426)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2015	9,296	9,024	272

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	8,744
Adjustments for the actual capital expenditure outturn in	
CP4	249
Renewals	462
PR13 enhancements	250
Non-PR13 enhancements	17
Total enhancements	267
Amortisation	(426)
Adjustments for under-delivery of regulatory outputs	-
Closing RAB	9,296

Statement 2a: RAB - Regulatory financial position, London North East – continued

in £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was a combination of re-profiling activity from future years, expenditure rolled over from CP4 (for which the regulator adjusted the renewals allowances) offset by some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was lower than the regulator assumed. This was due to a deferral of enhancement activity and efficient overspends compared to the funding available (the value of which cannot all be logged by to the RAB). The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position.

Statement 2b: RAB - reconciliation of expenditure, London North East

in £m 2014-15 prices unless stated

Total as at 31/03/15

Renewals

Renewals per the PR13 determination **419**

Adjustments to the PR13 determination

Renewals / enhancement reallocation

-

Capitalised financing on reallocations

-

CP4 deferrals to CP5

16

Capitalised financing on CP4 deferrals

-

Other adjustments

-

Capitalised financing on other adjustments

-

Adjusted PR13 determination (renewals) **435**

Adjustments in accordance with the PR13 RAB roll forward policy

Adjustments for acceleration / (deferral) of expenditure within CP5

(32)

Capitalised financing on acceleration / (deferrals) of expenditure

(1)

Adjustments for efficient overspend

68

Capitalised financing on efficient overspend

2

25% retention of efficient overspend

(17)

Capitalised financing on efficient overspend 25% retention

-

Adjustments for efficient underspend

-

Capitalised financing on efficient underspend

-

25% retention of efficient underspend

-

Capitalised financing on efficient underspend 25% retention

-

Adjustments for underspend that is not deemed efficient

-

Capitalised financing relating to underspend that is not deemed efficient

-

Adjustments for efficient overspend through spend to save framework

9

Capitalised financing on efficient overspend through spend to save framework

-

20% retention of efficient overspend through spend to save framework

(2)

Capitalised financing on efficient overspend through spend to save framework 20% retention

-

Other adjustments

-

Capitalised financing on other adjustments

-

Total Renewals (added to the RAB - see Statement 2a) **462**

Adjustment for manifestly inefficient overspend

-

Adjustment for capitalised financing

(1)

Adjustment for retention of efficient overspend (including spend to save adjustment)

19

Adjustment for retention of efficient underspend

-

Other adjustments

-

Total actual renewals expenditure (see statement 9) **480**

Statement 2b: RAB - reconciliation of expenditure, London North East - continued

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	287
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	84
Capitalised financing on CP4 deferrals	2
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	-
Capitalised financing on adjustments to DfT funding	-
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (enhancements)	373
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(124)
Capitalised financing on acceleration / (deferrals) of expenditure	(3)
Adjustments for efficient overspend	4
Capitalised financing on efficient overspend	-
25% retention of efficient overspend	(1)
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-
Capitalised financing relating to projects with tailored protocols or fixed price	-
Adjustments for efficient overspend through spend to save framework	1
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	250
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	17
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	-
Capitalised financing on non-PR13 enhancements expenditure	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	-
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	17
Total enhancements (added to the RAB - see statement 2a)	267
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	1
Adjustment for retention of efficient overspend (including spend to save adjustment)	1
Other adjustments (including discretionary investment)	2
Adjustment for retention of efficient underspend	-
Non-PR13 enhancement expenditure	-
Third party funded schemes	35
Other adjustments	-
Total actual enhancement expenditure (see statement 3)	306

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancements –CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted.
- (10) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (11) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.

Statement 2b: RAB - reconciliation of expenditure, London North East – continued

in £m 2014-15 prices unless stated

- (12) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (13) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will receive the other 20 per cent of the expense through additional income during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (14) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (15) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.
- (16) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition.

Statement 3: Analysis of enhancement capital expenditure, London North East

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Funds			
East coast connectivity	9	2	(7)
Stations - National Station Improvement Programme (NSIP)	1	4	3
Stations - Access for All (AfA)	1	10	9
Development	1	5	4
Level crossing safety	-	4	4
Passenger journey improvement	-	11	11
The strategic rail freight network	7	9	2
Total funds	19	45	26
Committed projects			
Northern Hub	1	8	7
IEP Programme	59	96	37
North Trans Pennine electrification east	16	65	49
Micklefield - Selby electrification	-	-	-
Thameslink	59	25	(34)
Total committed projects	135	194	59
Named schemes			
The Electric Spine			
DfT Sofa Amount	1	4	3
Total Electric Spine projects	1	4	3
Yorkshire			
Huddersfield station capacity improvement	-	-	-
Total Yorkshire Projects	-	-	-
HLOS capacity metric schemes			
Leeds and Sheffield Capacity	-	2	2
Stevenage and Gordon Hill turnbacks	1	1	-
Bradford Mill Lane capacity	-	-	-
Leeds station capacity	-	3	3
LNE routes traction power supply upgrade	-	17	17
Total HLOS capacity metric schemes	1	23	22
CP4 Project Rollovers			
Capacity relief to the ECML	72	80	8
North Doncaster Chord	-	2	2
East Coast mainline overhead electrification	-	2	2
Station Security	-	-	-
Other CP4 Rollover	-	-	-
Total CP4 rollovers	72	84	12
Other projects			
Seven day railway projects	7	-	(7)
ERTMS Cab fitment	9	8	(1)
R&D allowance	1	2	1
Depots and stabling	-	-	-
Income generating property schemes	7	7	-
Other income generating investment framework schemes	-	6	6
Total other projects	24	23	(1)
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	252	373	121

Statement 3: Analysis of enhancement capital expenditure, London North East - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
B) Investments not included in PR13			
Government sponsored schemes			
Station Commercial Project Fund	7	-	(7)
Tram Train Project	5	-	(5)
Other government sponsored schemes	1	-	(1)
Total Government sponsored schemes	13	-	(13)
Network Rail spend to save schemes			
Other spend to save schemes	4	-	(4)
Total Network Rail spend to save schemes	4	-	(4)
Total Schemes promoted by third parties	-	-	-
Discretionary Investment	2	-	(2)
Total non PR13 enhancement expenditure	19	-	(19)
Total Network Rail funded enhancements (see Statement 1)	271	373	102
Third Party PAYG	35	-	(35)
Total enhancements (see statement 2b)	306	373	67

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £271m (as shown in Statement 1). This comprises the total enhancement figure in the table above £306m less the PAYG schemes funded by third parties (£35m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) East Coast connectivity – this fund is used to improvement capacity and reduces journey times on the East Coast main line. The regulator assumed a different profile of expenditure in the determination compared the profile planned by Network Rail resulting in additional expenditure this year but costs during the control period are not expected to exceed the funding available.
 - (b) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (c) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when investment activity is expected to occur. Expenditure over the control period is not expected to exceed with the regulator's allowances.
 - (d) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. The regulator assumed a different profile of expenditure in the determination compared the profile planned by Network Rail resulting in lower than planned expenditure this year but costs during the control period are not expected to exceed the funding available.

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2014-15 prices unless stated

- (e) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.
 - (f) The Strategic rail freight network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year was lower than the regulator assumed as work was re-profiled to later years..
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Northern Hub –the outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Costs are lower than the determination assumed as Network Rail is planning to deliver this programme in a different manner and to different timescales than the regulator's expectation.
 - (b) IEP Programme - the outputs of this includes infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Although expenditure is lower than the PR13 assumed this is mostly due to re-profiling of the programme delivery to future years. The anticipated costs of the programme exceed the funding available which has resulted in negative FPM being recognised (refer to Statement 5a) and not all of the capital expenditure this year is allowed to be logged up to the RAB (refer to Statement 2a).
 - (c) North Trans Pennine Electrification - This programme facilitates the introduction of electric train operation on passenger and freight services in the north of England. This programme is some way behind the schedule assumed by the regulator.
 - (d) Thameslink - The objective of this programme is to increase the frequency with which services could operate on this part of the network. Spend is noticeably higher than the determination as the regulator assumed a different geographical spread of activity compared to where the costs in the control period are occurring. As this is due to a difference in assumptions and the total England & Wales programme expenditure is expected to be in line with the funding available none of this variance has been classified as financial underperformance (as reported in Statement 5a). Similarly, in other routes where expenditure is lower than the determination none of this has been recognised as financial outperformance.
- (7) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) London North East routes traction power supply upgrade - This project will provide power supply upgrade development work to enable the delivery of required power to support growth in CP6. In line with Network Rail's internal plan activity on this programme was limited in 2014/15.
- (8) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the PR13 column values in this statement. Notable variance between the funding available and actual spend in 2014/15 in these areas are noted below:
- (a) Capacity relief to the ECML (East Coast Main Line) – when the regulator provided additional allowances for the completion of this programme they assumed that the project would be completed in the current year. However, Network Rail has deferred elements of the project until next year. Overall, the total programme costs are expected to be in line with the funding available

Statement 3: Analysis of enhancement capital expenditure, London North East – continued

in £m 2014-15 prices unless stated

- (9) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
- (a) Seven day railway projects – Network Rail has invested this fund quicker than the regulator assumed in the first year of the control period. The seven day railway programme was also available in control period 5 meaning the company has a mature governance process for identifying appropriate projects. This has allowed Network Rail to accelerate funding from future years in order to gain maximum benefit of this fund by investing at the start of the control period.
 - (b) R&D allowance – the regulator assumed that Network Rail would invest this fund evenly over the control period. However, Network Rail have spent more slowly in the first year of the control period as it seeks to identify those schemes which will deliver maximum benefit to the industry. The R&D allowance is a new principle for control period 5 so Network Rail is considering the optimal use of this funding allowance.
 - (c) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
- (a) Government sponsored – as expected, this is significantly lower than last year. Intuitively, towards the end of a control period it would be likely that this level of expenditure would be relatively high as most programmes that emerge during the control period are likely to be funded through this mechanism.
 - (b) Network Rail Spend to save – acquisition of freight sites and paths. Most of the costs of these acquisitions were incurred in control period 4 and included in last year's Regulatory financial statements.
 - (c) Discretionary investment – this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).
 - (d) PAYGO – The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year. Notable projects delivered this year include works at Leeds station and aspects of the IEP programme (works at Merchant Park).

Statement 4: Net debt and financial ratios, London North East

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	5,886	5,852	(34)
Income			
Grant income	(721)	(716)	5
Fixed charges	(65)	(64)	1
Variable charges	(169)	(158)	11
Other single till income	(97)	(96)	1
Total income	(1,052)	(1,034)	18
Expenditure			
Network operations	80	80	-
Support costs	67	78	11
Traction electricity, industry costs and rates	77	74	(3)
Network maintenance	151	163	12
Schedule 4	24	30	6
Schedule 8	(9)	1	10
Renewals	480	419	(61)
PR13 enhancement	252	288	36
Non-PR13 enhancement	19	-	(19)
Total expenditure	1,141	1,133	(8)
Financing			
Interest expenditure on nominal debt - FIM covered	88	93	5
Interest expenditure on index linked debt - FIM covered	42	45	3
Expenditure on the FIM	64	66	2
Interest expenditure on government borrowing	17	-	(17)
Interest on cash balances held by Network Rail	(2)	(1)	1
Total interest costs	209	203	(6)
Accretion on index linked debt - FIM covered	39	92	53
Total financing costs	248	295	47
Corporation tax	(1)	1	2
Other	75	101	26
Movement in net debt	411	496	85
Closing net debt	6,297	6,348	51

D) Financial indicators

	2014-15 Actual	2014-15 PR13
Adjusted interest cover ratio (AICR)	1.11	0.91
FFO/interest	3.15	3.01
Net debt/RAB (gearing)	67.8%	70.3%
FFO/debt	10.4%	9.6%
RCF/debt	7.1%	6.4%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

Statement 4: Net debt and financial ratios, London North East – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Debt attributable to London North East route has increased by over £400m during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is around £50m lower than the regulator assumed. This is mostly due to lower than expected enhancement investment in the railway network, lower than expected interest costs and favourable working capital movements partly offset by higher than assumed opening net debt partly and additional renewals expenditure.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.

Statement 4: Net debt and financial ratios, London North East – continued

in £m nominal unless otherwise stated

- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed. The rates for this type of debt have been generally in line with expectation but, as discussed above, Network Rail has reduced the proportion of index-linked debt held.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Corporation tax – the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.

(14) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(15) 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 April 2014.

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

(16) Financial indicators – AICR – a ratio of less than 1 suggests that the route is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected London North East route would not cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). The AICR is higher than the regulator's expectation due to favourable performance regime income, capacity charge income, Support costs and Network maintenance costs.

(17) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m.

in £m 2014-15 prices unless stated

Total financial out / (under) performance to be recognised	11
--	----

Statement 5a: Total financial performance, London North East - continued

in £m 2014-15 prices unless stated

	2014-15			Cumulative		
Breakdown of variance not included in total financial performance - Variable income:	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustments for external traction electricity	(34)	(30)	(4)	(34)	(30)	(4)
Total variance not included in total financial performance:	(34)	(30)	(4)	(34)	(30)	(4)

	2014-15			Cumulative		
Breakdown of variance not included in total financial performance - Support costs:	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Release of CP4 long distance financial penalty provision	4	-	4	4	-	4
Total variance not included in total financial performance:	4	-	4	4	-	4

	2014-15			Cumulative		
Breakdown of variance not included in total financial performance - Traction electricity:	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustments for external traction electricity	34	30	4	34	30	4
Total variance not included in total financial performance:	34	30	4	34	30	4

Statement 5a: Total financial performance, London North East – continued

in £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

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

Statement 5a: Total financial performance, London North East – continued

in £m 2014-15 prices unless stated

- (6) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (7) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police (BTP) costs compared to the assumption in the determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.
- (8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (9) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on reactive maintenance in the opening year of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved. Adjusting for the changes in activity, Network maintenance costs are slightly higher than the determination. The main contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs.
- (10) Schedule 4 costs – costs were lower than the regulator assumed. In order to calculate financial performance an adjustment is made to the PR13 baseline to reflect the level of renewals activity actually undertaken in a given year so that a fair assessment of financial performance can be made. As a result, the baseline in London North East in 2014/15 increased. Financial outperformance was achieved from better planning of possessions. Developing and conforming to works schedules, and so possessions resulting, in fewer late possessions which are more expensive and disruptive.
- (11) Schedule 8 costs – positive FPM has been declared in the year due to the better than planned train performance on the route, especially on the East Coast main line. This has been achieved through focus on critical assets, vegetation management and limiting the impact of possession overruns. The regulator assumed a Schedule 8 cost in the year (ie Network Rail compensating operators) but as performance exceeded certain targets overall the route received net income from operators.
- (12) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (13) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).

Statement 5a: Total financial performance, London North East – continued

in £m 2014-15 prices unless stated

- (14) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (15) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.
- (16) Corporation tax – whilst corporation tax variances are within the scope of FPM, it is uncertain that gains made in the current year will continue throughout the control period. Given this uncertainty, no FPM has been recognised at this time and so the saving compared to the PR13 baseline has been treated as neutral for the current year. This will be reviewed and updated in future years.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North East were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North East also faces a reduction for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North East were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North East also faces a reduction for this missed output.

Statement 5b: Total financial performance - renewals variance analysis, London North East

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(37)	7	(44)	(11)		(12)	1	-
Signalling	27	35	(8)	(2)		(2)	-	-
Civils	(6)	(2)	(4)	(1)		(1)	-	-
Buildings	(9)	(9)	-	-		1	(1)	-
Electrical power and fixed plant	5	5	-	-		(2)	2	-
Telecoms	-	4	(4)	(1)		-	(1)	-
Wheeled plant and machinery	15	15	-	-		-	-	-
IT	(10)	(10)	-	-		-	-	-
Property	(2)	(2)	-	-		-	-	-
Other renewals	(44)	(36)	(8)	(2)		-	(2)	-
Total	(61)	7	(68)	(17)		(16)	(1)	-

Where:

$$C = A - B$$

$$D = C \times 25\%$$

And:

$$D = E + F + G$$

Statement 5b: Total financial performance - renewals variance analysis, London North East – continued

in £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable financial underperformance in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Costs in the current year have also suffered from contractor productivity issues as Network Rail has reduced the number of delivery partners it uses as part of its framework contracts which has led to some problems managing the workbanks delivered by those contractors not being retained. Cost improvements were planned to arise from using new technologies and working practices have not all materialised. In addition, unplanned critical works have had to be undertaken.
- (3) Signalling – FPM has been adversely affected by cost increases across most of the portfolio including projects rolled over from CP4 for which the ORR has not provided any funding. The delay in completing these projects has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned.
- (4) Civils – costs of remediation works associated with the Unstone landslip has been the main driver of additional costs and so financial underperformance reported this year. Costs are also higher due to the completion of a number of small CP4 projects for which there is no funding available in the baseline. Additional scope on the Selby swing bridge programme (owing to worse than expected asset condition and additional outputs required) have also resulted in the recognition of financial underperformance.
- (5) Telecoms – in the face of increased challenges in supporting the expanding railway and technological advances a number of additional projects have been identified in the telecoms workbank for CP4. This has increased the total costs of the telecoms asset category over the control period creating negative FPM, a portion of which has been recognised in 2014/15.
- (6) Other renewals – this is mainly due to additional expenses on FTN project rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of the FTN programme is expected to exceed the amounts made available by the regulator. As the FTN project has not finished not all of the expected FPM has been recognised in 2014/15, and the additional negative FPM will crystallise later in the control period when the programme completes.

Statement 5c: Total financial performance - enhancement variance analysis, London North East

in £m 2014-15 prices unless stated

			2014-15			
	Variance to adjusted PR13	Variance due to ECAM adjustment	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
IEP Programme	35	(34)	5	-	(4)	(1)
Other Enhancements	67	-	63	-	4	1
Total	102	(34)	68	-	-	-

Statement 5c: Total financial performance - enhancement variance analysis, London North East – continued

in £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) As part of the ECAM process, ORR reduced the agreed efficient price of each programme by 3 per cent to reflect a stretch target that the regulator imposed. Therefore, once a programme has been through the ECAM process it is likely that it would expect to have negative FPM as the funding has been reduced by 3 per cent but the programme has not had long enough to realise any savings to offset this 3 per cent. Against this regime it is unsurprising that Network Rail is reporting negative FPM on programmes that have been through ECAM.
- (2) IEP programme – nearly half of the negative FPM is due to the 3 per cent stretch imposed by the regulator on the ECAM price.
- (3) Other enhancements – this mostly relates to favourable settlement of commercial claims and provisions against CP4 programmes that have now been resolved. The expected costs were included within the Financial Value Added (FVA) calculation for CP4 and so the benefit of the favourable settlement is recognised in FPM in CP5.

in £m 2014-15 prices unless stated

Where: $C = B - A$

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

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

Statement 5d: Total financial performance – REBS performance, London North East – continued

in £m 2014-15 prices unless stated

Notes:

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

Statement 6a: Analysis of income, London North East

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	721	716	5	640
Franchised track access income				
Fixed charges	65	64	1	262
Variable charges	-	-	-	-
Variable usage charge	29	29	-	30
Traction electricity charges	34	30	4	39
Electrification asset usage charge	2	2	-	2
Capacity charge	75	68	7	15
Station usage charge	-	-	-	-
Schedule 4 net income	29	29	-	31
Schedule 8 net income	-	-	-	-
Total Variable charges income	169	158	11	117
Total franchised track access income	234	222	12	379
Total franchised track access and grant income	955	938	17	1,019
Other single till income				
Property income	23	26	(3)	23
Freight income	24	21	3	25
Open access income	11	11	-	11
Stations income	29	29	-	28
Facility and financing charges	1	1	-	1
Depots Income	8	8	-	8
Other income	1	-	1	-
Total other single till income	97	96	1	96
Total income	1,052	1,034	18	1,115

Statement 6a: Analysis of income, London North East – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Fixed charges – fixed charge income was slightly higher than the determination. This is partly due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual fixed charge payments made by operators which are calculated using the November 2013 RPI in line with the track access contractual arrangements. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Fixed charges cannot be compared to the prior year figure in a meaningful way. The amount of fixed charge income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The decrease in fixed charges compared to 2013/14 is partly offset by higher grant income received from government. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is higher than the determination due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. However this is balanced by an overspend on electricity costs (as shown in Statement 7a). Traction electricity charges are slightly higher than the previous year.

Statement 6a: Analysis of income, London North East – continued

in £m 2014-15 prices unless stated

- (5) Capacity charge - this is higher than the determination because there has been an increase in train services in the year compared to the regulator's assumption. This is also reflected in the amounts Network Rail have earned under the volume incentive (refer to Statement 10). The details for this can be found in Statement 12. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore the in year figure cannot be compared to 2013/14 in a meaningful way.
- (6) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Despite changes in the compensation rates in control period 5 compared to control period 4, income is broadly in line with the previous year.
- (7) Property income – this is lower than the determination due to lower property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once.
- (8) Freight income – this is higher than the regulator assumed due to additional services being offered this year compared to the regulator's assumption.
- (9) Other income – this relates to amounts charged to operators for insurance which Network Rail procures on a national level (the corresponding expenses are included in Support costs).

Statement 6b: Analysis of other single till income, London North East (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property Income				
Property rental	24	27	(3)	24
Property sales	(1)	3	(4)	(1)
Adjustment for commercial opex	-	(4)	4	-
Total property income	23	26	(3)	23
Freight income				
Freight variable usage charge	17	17	-	18
Freight traction electricity charges	1	1	-	1
Freight electrification asset usage charge	-	1	(1)	-
Freight capacity charge	2	1	1	2
Freight only line charge	2	1	1	3
Freight specific charge	-	-	-	-
Freight other income	-	-	-	-
Freight coal spillage charge	2	-	2	1
Total freight income	24	21	3	25
Open access income				
Variable usage charge income	2	2	-	2
Open access capacity charge	1	1	-	1
Open access traction electricity charges	-	-	-	-
Fixed contractual contribution	8	8	-	8
Open access other income	-	-	-	-
Total open access income	11	11	-	11
Stations income				
Managed stations income				
Long term charge	5	5	-	2
Qualifying expenditure	7	7	-	5
Total managed stations income	12	12	-	7
Franchised stations income				
Long term charge	11	11	-	15
Stations lease income	6	6	-	6
Total franchised stations income	17	17	-	21
Total stations income	29	29	-	28
Facility and financing charges				
Facility charges	1	1	-	1
Crossrail finance charge	-	-	-	-
Welsh Valleys finance charge	-	-	-	-
Total facility and financing charges	1	1	-	1
Depots income	8	8	-	8
Other	1	-	1	-
Total other single till income	97	96	1	96

Statement 6b: Analysis of other single till income, London North East (unaudited) - continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	45	43	(2)	45
Signalling shift managers	3	3	-	2
Local operations managers	3	3	-	3
Controllers	5	6	1	8
Electrical control room operators	1	1	-	1
Total signaller expenditure	57	56	(1)	59
Non-signaller expenditure				
Mobile operations managers	5	6	1	5
Managed stations	8	7	(1)	5
Performance	3	3	-	3
Customer relationship executives	1	1	-	1
Route enhancement managers	-	-	-	-
Weather	3	4	1	-
Other	3	2	(1)	5
Operations delivery	-	-	-	(1)
HQ - Operations services	-	-	-	-
HQ - Performance and planning	-	-	-	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	3	5	2	6
Other operating income	(3)	(4)	(1)	-
Total non-signaller expenditure	23	24	1	24
Total network operations expenditure	80	80	-	83
Support costs				
Core support costs				
Human resources	9	11	2	10
Information management	11	12	1	9
Government and corporate affairs	3	3	-	3
Group strategy	1	1	-	2
Finance	3	5	2	3
Business services	2	2	-	2
Accommodation	7	6	(1)	12
Utilities	7	7	-	7
Insurance	9	8	(1)	6
Legal and inquiry	1	2	1	1
Safety and sustainable development	4	1	(3)	2
Strategic sourcing	1	1	-	1
Business change	-	2	2	1
Other corporate functions	6	2	(4)	4
Core support costs	64	63	(1)	63
Other support costs				
Asset management services	6	9	3	7
Network Rail telecoms	8	7	(1)	8
National delivery service	-	1	1	1
Infrastructure Projects	(2)	-	2	(9)
Commercial property	-	(1)	(1)	4
Group costs	(9)	(1)	8	23
Total other support costs	3	15	12	34
Total support costs	67	78	11	97
Traction electricity, industry costs and rates				
Traction electricity	36	31	(5)	42
Business rates	24	24	-	23
British transport police costs	13	12	(1)	12
RSSB costs	1	2	1	1
ORR licence fee and railway safety levy	1	3	2	3
Reporters fees	1	1	-	-
Other industry costs	1	1	-	-
Total traction electricity, industry costs and rates	77	74	(3)	81
Total network operations expenditure, support costs, traction electricity, industry costs and rates	224	232	8	261

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations - costs are in line with the regulator's assumptions. Costs are slightly lower than the prior year due to some efficiencies that have been made in line with the regulator's expectations.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (impact of removing non-recurring items in Group).
- (5) Safety and sustainable development - Costs are higher than the determination and the previous financial year. This is due to the company focussing even more on safety by investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the prior year and in the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are funded by savings made in these areas.
- (6) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination and in 2013/14 within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.
- (7) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.

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

in £m 2014-15 prices unless stated

- (8) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher electricity charges and British Transport Police costs offset by savings in RSSB costs and ORR licence fee and railway safety levy.
- (9) Traction electricity – costs are in line with the prior year but significantly higher than the determination. Network Rail has limited ability to influence traction electricity costs which are driven by the prevailing market rates of these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in the financial year are higher than the determination due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also higher than the Regulator assumed.
- (10) British transport police costs - costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were noticeably higher than the regulator assumed when preparing their CP5 determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North East (unaudited)

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	39	51
Operations and customer services non-signalling	-	-
MOMS	4	5
Control	7	9
Planning & Performance Staff Costs	5	4
Managed Stations Staff Costs	4	2
Operations Management Staff Costs	4	2
Other	20	7
Total operations & customer services costs	83	80
Total Network Operations	83	80
Support		
Human resources		
Functional support	4	4
Training (inc Westwood)	3	2
Graduates	-	-
Apprenticeships	1	2
Other	2	1
Total human resources	10	9
Information management		
Support	1	1
Projects	-	-
Licences	-	-
Business operations	8	10
Other	-	-
Total information management	9	11
Finance	3	3
Business Change	1	-
Contracts & procurement	1	-
Strategic Sourcing (National Supply Chain)	-	1
Planning & development	2	1
Safety & compliance	2	-
Other corporate services	8	3
Commercial property	16	7
Infrastructure Projects	(9)	(2)
Route Services	2	3
Asset management & Engineering/Asset heads	21	-
National delivery service	1	-
Utilities	-	7
Network Rail telecoms	-	8
Digital Railway	-	3
Safety Technical & Engineering	-	7
Government & Corporate Affairs	-	3
Business Services	-	2
Route Asset Management	-	1
Legal and inquiry	-	1
Group/central		
Pensions	-	-
Insurance	6	9
Redundancy/reorganisation costs	11	3
Staff incentives/Bonus Reduction	2	(5)
Accommodation & Support Recharges	(1)	(4)
ORR financial penalty	12	(4)
Other	-	-
Total group/central costs	30	(1)
Total support	97	67
Total network operations and support costs	180	147

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North East (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, London North East

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	66	64	(2)	74
Signalling	24	24	-	20
Civils	11	19	8	45
Buildings	1	6	5	27
Electrical power and fixed plant	15	12	(3)	12
Telecoms	3	3	-	4
Other network operations	31	24	(7)	17
Asset management services	5	5	-	5
National Delivery Service	(1)	7	8	1
Property	-	1	1	1
Group	(4)	(2)	2	(3)
Total maintenance expenditure	151	163	12	203

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

in £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs.
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs of in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are lower than the determination and the prior year. The main contributor to this was less reactive maintenance than plan in Buildings and Civils. This is offset by Network Rail's decision to reduce the level of incentive payouts to senior management and instead, re-invest this money into programmes to improve the safety and performance of the network. A significant amount was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading). Despite this costs are only slightly higher than the determination, due to a tight control on premium hours and overtime. Costs are lower than the previous year, which also included a full off-charge of National Delivery Services activities, despite an increase in network traffic (and so wear and tear on the network) compared to CP4, due to various efficiency initiatives which have generated savings.
- (4) Civils – costs were lower than the determination mainly as a result of a lower level of Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are lower than the prior year mostly due to a lower level of Reactive Maintenance required this year compared to 2013/14.
- (5) Buildings – there were no maintenance costs for Buildings reported in last year's Regulatory financial statements as the regulator chose to fund reactive maintenance works through Renewals last control period whereas this year, to be consistent with International Accounting Standards (IAS), these costs are accounted for as maintenance. The prior year has been restated to reflect these changes and provide a like-for-like comparison. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance between the actual and PR13 in the year is all due to differences in the reactive maintenance spend which has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

Statement 8a: Summary analysis of network maintenance expenditure, London North East – continued

in £m 2014-15 prices unless stated

- (6) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category and accounts for the spend being higher than the regulator's assumption in 2014/15. In addition, local management made the decision to invest in schemes to augment asset reliability and so improve performance. Costs are noticeably higher than 2013/14 which is a combination of the investment in the programmes noted above and a significant increase in the asset management organisation within the routes. As part of the move towards a devolved, more accountable railway the capabilities and responsibilities of the local asset management teams have increased significantly since 2013/14, as planned in Network Rail's plans for CP5, and reflected in the expenditure allowances set by the regulator.
- (7) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The small credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided.

Statement 9a: Summary analysis of renewals expenditure, London North East

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	163	126	(37)	213
Signalling	115	142	27	100
Civils	87	81	(6)	88
Buildings	25	16	(9)	14
Electrical power and fixed plant	17	22	5	30
Telecoms	14	14	-	38
Wheeled plant and machinery	11	26	15	7
Information Technology	24	14	(10)	15
Property	4	2	(2)	18
Other renewals	20	(24)	(44)	31
Total renewals expenditure	480	419	(61)	554

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – variance to PR13 is a combination of accelerating volumes and higher than expected underlying costs. Network Rail's planned expenditure this year expected an overspend of more than £35m on a like-for-like basis. This higher cost was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual costs were higher than Network Rail planned for both plain line and switches & crossings partly due to contractor dispute issues (partly as a result of productivity problems arising from rationalising the supplier base) and lower than expected efficiencies from efficiency initiatives. Track non-volume and off-track costs were lower than the regulator assumed due to re-profiling of activity within the control period. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Expenditure was lower than the previous year which was mainly volume related. In CP4 a great deal of the track portfolio was delivered towards the end of the five-year period.
- (3) Signalling – overall, expenditure was lower than the determination expected. However, this was largely due to deferral of activity, which was partly offset by higher than expected costs on a like for like basis. These extra costs included increases in the expected total costs of some large multi-year re-signalling projects. Also, there were extra costs incurred from completing some control period 4 projects for which the regulator has not provided any funding, Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is generally in line with the previous year.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

in £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spend more on civils this year than the regulatory assumption. Civils underbridges – expenditure was lower than the regulator assumed largely due to a re-profiling of volumes until later years of the control period. The extreme weather in 2013/14 impacted upon the railway infrastructure requiring remedial costs which have been recognised in the current year. Expenditure is in line with the previous year.
- (5) Buildings – expenditure in the year was higher than the determination. The main reason for this is increased spending on Franchised Stations (most notably increased volumes were delivered on buildings and canopies). However, expenditure was lower than Network Rail planned mostly due to lower expenditure on franchised stations. Renewals costs were much higher than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (6) Electrical power and fixed plant – expenditure in the year was noticeable lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant and SCADA as Network Rail seeks to find optimal delivery strategies for these programmes. The SCADA activity planned for CP4 did not materialise which has delayed delivery of the CP5 activity. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. These were offset by increased costs on Overhead line. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (7) Telecoms – expenditure in the year was in line with the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. The largest contributor to the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5). Expenditure is higher than the previous year due to additional High output plant purchases and increased spend on Intervention items.
- (9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.

Statement 9a: Summary analysis of renewals expenditure, London North East – continued

in £m 2014-15 prices unless stated

(10) Property – costs are in line with the expectation in the determination but are lower than the prior year. This is mostly due to expenditure on the corporate office estate which can fluctuate year on year depending upon the scheduled property workbank. Notable projects delivered in the final year of CP4 included investment in modernising the national training centre at Westwood and constructing the York workforce development centre. This year there were fewer major office projects resulting in lower costs.

(11) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, although there has been spend on ORBIS this year, as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- d. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN and ORBIS. Expenditure on FTN programme has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

Statement 9b: Detailed analysis of renewals expenditure, London North East (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	48	29	(19)
High output renewal	52	27	(25)
Plain line refurbishment	13	2	(11)
S&C renewal	20	28	8
S&C refurbishment	11	8	(3)
Track non-volume	2	12	10
Off track	17	20	3
Total track	163	126	(37)
Signalling			
Full conventional resignalling	36	43	7
Modular resignalling	-	4	4
ERTMS resignalling	10	7	(3)
Partial conventional resignalling	-	8	8
Targeted component renewal	-	3	3
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	21	11	(10)
Operating strategy other capital expenditure	8	7	(1)
Level crossings	15	15	-
Minor works	25	36	11
Centrally managed costs	-	8	8
Total signalling	115	142	27
Civils			
Underbridges	26	47	21
Overbridges	22	5	(17)
Bridgeguard 3	-	-	-
Major structures	16	6	(10)
Tunnels	1	3	2
Other assets	3	4	1
Structures other	7	3	(4)
Earthworks	12	13	1
Other	-	-	-
Total civils	87	81	(6)
Buildings			
Managed stations	3	3	-
Franchised stations	15	9	(6)
Light maint depots	1	1	-
Depot plant	1	-	(1)
Lineside buildings	3	1	(2)
MDU buildings	2	2	-
NDS depots	-	-	-
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	25	16	(9)

Statement 9b: Detailed analysis of renewals expenditure, London North East (unaudited) - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	-	3	3
Overhead Line	7	3	(4)
DC distribution	-	-	-
Conductor rail	-	-	-
SCADA	-	4	4
Energy efficiency	-	-	-
System capability / capacity	-	-	-
Other electrical power	2	3	1
Fixed plant and rail heating	8	9	1
Total electrical power and plant	17	22	5
Telecoms			
Operational communications	1	1	-
Network	2	4	2
SISS	-	5	5
Projects and other	1	1	-
Non-route capital expenditure	10	3	(7)
Total telecoms	14	14	-
Wheeled plant and machinery			
High output	3	13	10
Incident response	-	2	2
Infrastructure monitoring	1	1	-
Intervention	1	4	3
Materials delivery	3	-	(3)
On track plant	1	1	-
Seasonal	1	4	3
Locomotives	-	-	-
Fleet support plant	-	1	1
Road vehicles	1	-	(1)
S&C delivery	-	-	-
Total wheeled plant and machinery	11	26	15
Information Technology			
IM delivered renewals	22	12	(10)
Traffic management	2	2	-
Total information technology	24	14	(10)
Property			
MDUs/offices	2	1	(1)
Commercial estate	2	1	(1)
Corporate services	-	-	-
Total property	4	2	(2)
Other renewals			
Asset information strategy	-	9	9
Intelligent infrastructure	2	2	-
Faster isolations	-	6	6
LOWS	-	1	1
Small plant	1	2	1
Research and development	-	-	-
Phasing overlay	-	(44)	(44)
Engineering innovation fund	-	-	-
CP4 rollover	17	-	(17)
Other	-	-	-
West Coast	-	-	-
Total other renewals	20	(24)	(44)
Total renewals	480	419	(61)

Statement 9b: Detailed analysis of renewals expenditure, London North East (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, London North East

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	24	30	6	30
Access charge supplement Income	(29)	(29)	-	(31)
Net (income)/cost	(5)	1	6	(1)
Schedule 8				
Performance element income	(17)	-	17	-
Performance element costs	8	1	(7)	45
Access charge supplement Income	-	-	-	-
Net (income)/cost	(9)	1	10	45

B) Opex memorandum account

	2014-15
Volume incentive	1
Proposed income/(expenditure) to be included in the CP6	
Business Rates	-
RSSB Costs	(1)
ORR licence fee and railway safety levy	(2)
Reporters fees	-
Other industry costs	-
Difference in CP4 opex memo	(1)
Proposed Opex to be included in the CP5 expenditure allowance	-
Total logged up items	(3)

Statement 10: Other information, London North East – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are lower than the determination due to more efficient planning of possessions. Developing and conforming to works schedules, and so possessions resulting, in fewer late possessions which are more expensive and disruptive. The route also made efficient use of "blockades". This involves planning renewals and enhancement works to occur at the same time on a portion of the network. This results in a longer possession but allows more work to be completed and thus generates delivery efficiencies. In addition, costs in the current year benefitted from favourable settlements of commercial claims. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the in-year cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are lower than the determination due to reduced delays, notably on the East Coast main line. This has been achieved through focus on critical assets, vegetation management and limiting the impact of possession overruns. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the in-year cost cannot be compared to the 2013/14 number in a meaningful way.
- (3) The opex memorandum currently shows a net cost. This means that Network Rail's income in the PR18 will be adjusted to reflect this subject to the regulator's overall funding decisions for CP6.

Statement 12: Volume incentives, London North East

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year	2013-14 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	10	2	48	46	0.4%	1.46	pence per passenger train mile
Passenger farebox (millions)	5	1	1,296	1,231	2.1%	2.5%	% of additional farebox revenue
Freight train miles (millions)	(5)	(1)	4	4	14.2%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	(5)	(1)	4,161	3,847	20.2%	2.50	pence per freight 1,000 gross tonne mile
Total volume incentive	5	1					

The cumulative volume incentive is determined by the formula: $VI_t = (A_t - (B_{t-1} \times (1 + C_t))) \times D \times 5$

Where:

A_t = Actual in year quantity

B = 2014-15 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, London North East – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £1m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, London North East

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

		Actual				Network Rail Business Plan		Difference to Business Plan			
		In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost	
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	3,986	991	3,950	-	3,950	1,280	-	289	n/a
MNT005	Plain Line Stoneblowing (km)	km	6,008	247	1,484	-	1,484	909	-	662	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	147	4,877	717	-	717	4,500	-	(377)	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	266	3,096	823	-	823	2,500	-	(596)	n/a
MNT007	S&C Tamping (point end)	Point end	4,062	689	2,799	-	2,799	870	-	181	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	328	3,114	1,020	-	1,020	3,500	-	386	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	98	17,284	1,699	-	1,699	23,000	-	5,716	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	1,739	624	1,085	-	1,085	444	-	(180)	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	5	197,433	918	-	918	300,000	-	102,567	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	14	118,133	1,710	-	1,710	47,359	-	(70,774)	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	13	342,164	4,509	-	4,509	250,000	-	(92,164)	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	7	64,515	445	-	445	25,000	-	(39,515)	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	14,634	101	1,478	-	1,478	123	-	22	n/a
MNT122	S&C Maintenance (point end)	Point end	52	49,320	2,568	-	2,568	75,000	-	25,680	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	11,496	113	1,299	-	1,299	120	-	7	n/a
MNT124	S&C Stoneblowing (point end)	Point end	-	-	-	-	-	50	-	50	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	1,730	-	-	-	2,567	-	837	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	134	-	-	-	256	-	122	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	16	64,660	1,042	-	1,042	250,000	-	185,340	n/a
MNT073	Drainage (Yard)	Yard	14	64,365	923	-	923	140,000	-	75,635	n/a
MNT075	LX Management - Off Track (Each)	Each	366	3,454	1,263	-	1,263	4,100	-	646	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	54	1,130	61	-	61	1,500	-	370	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	833	6	5	-	5	50	-	44	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	2	602,245	1,497	-	1,497	800,000	-	197,755	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	754	399	301	-	301	369	-	(30)	n/a
N/A	Non volume track and off-track maintenance	£m				34,232	34,232				n/a
Total track and off-track maintenance					31,596	34,232	65,828		64,368		(1,460)
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				24,314	24,314			-	n/a
Total signalling maintenance						24,314	24,314		24,336		22

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, London North East - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	29,352	-	-	-	27,895	-	(1,457)	n/a
MNT221	Detailed Examinations	No.	-	1,551	-	-	-	1,335	-	(216)	n/a
MNT222	Underwater Examination	No.	-	40	-	-	-	174	-	134	n/a
MNT223	Ancillary Structure examination	No. detailed	-	56	-	-	-	61	-	5	n/a
MNT224	Hidden critical element examinations	No.	-	153	-	-	-	153	-	-	n/a
MNT225	Load carrying assessment	No. spans	-	1,727	-	-	-	1,727	-	-	n/a
MNT226a	Visual Examinations (Civils)	No.	-	6,998	-	-	-	8,600	-	1,602	n/a
N/A	Non volume civils maintenance	£m				10,221	10,221			-	n/a
Total civils maintenance						10,221	10,221		19,375		9,154
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	3,536	-	-	-	3,537	-	1	n/a
MNT227	5 yearly examinations	Each	-	96	-	-	-	93	-	(3)	n/a
N/A	Non volume buildings maintenance	£m				914	914			-	n/a
Total buildings maintenance						914	914		5,725		4,811
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	200	5	1	-	1	50	-	45	n/a
MNT209	Maintain DC Traction Power Supplies	Each	82	1,122	92	-	92	-	-	(1,122)	n/a
MNT211	Maintain OHL Components	Various	53	68,569	3,649	-	3,649	45,300	-	(23,269)	n/a
MNT212	Maintain Points Heating	Each	32	29,498	948	-	948	29,500	-	2	n/a
MNT213	Maintain Signalling Power Supplies	Number	106	4,348	460	-	460	6,500	-	2,152	n/a
N/A	Non volume electrical power and fixed plant maintenance	£m				10,040	10,040			-	n/a
Total electrical power and fixed plant maintenance						5,150	10,040		12,419		(2,771)
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				3,439	3,439			-	n/a
Total telecoms maintenance						3,439	3,439		2,814		(625)
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				30,929	30,929			-	n/a
Total other network operations maintenance						30,929	30,929		24,041		(6,888)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, London North East - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				5,376	5,376			-	n/a
Total asset management services maintenance						5,376	5,376		5,222		(154)
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(767)	(767)			-	n/a
Total national delivery service maintenance						(767)	(767)		6,624		7,391
Property maintenance											
N/A	Non volume property maintenance	£m				1,191	1,191			-	n/a
Total property maintenance						1,191	1,191		691		(500)
Group maintenance											
N/A	Non volume group maintenance	£m				(3,554)	(3,554)			-	n/a
Total group maintenance						(3,554)	(3,554)		(2,593)		961
Total							153,081		163,022		9,941

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, London North East – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

Statement 14: Renewals volumes, unit costs and expenditure, London North East

in £m 2014-15 prices unless stated

		2014-15										Difference to Business Plan					
		Actual					Network Rail Business Plan					Other non-volume costs					
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	ckm	398	284	113	-	113	391	243	95	-	95	(7)	(41)	(18)	-	(18)
	Conventional		400	120	48	-	48	406	96	39	-	39	6	(24)	(9)	-	(9)
	High Output		491	106	52	-	52	520	98	51	-	51	30	(8)	(1)	-	(1)
	Refurbishment		224	58	13	-	13	102	49	5	-	5	(122)	(9)	(8)	-	(8)
	S&C	point enc	174	178	31	-	31	167	228	38	-	38	(7)	50	7	-	7
	Track Drainage		1	12,468	7	-	7	-	-	8	-	8	(1)	(12,468)	1	-	1
	Renewal	lm	-	3,875	-	-	-	-	-	-	-	-	-	(3,875)	-	-	-
	Refurbishment	lm	-	6,126	-	-	-	-	-	-	-	-	-	(6,126)	-	-	-
	New Build	lm	-	2,467	-	-	-	-	-	-	-	-	-	(2,467)	-	-	-
	Fencing		19	107	2	-	2	40	149	6	-	6	22	42	4	-	4
	Slab Track		-	-	-	-	-	(2)	-	-	-	-	(2)	-	-	-	-
	Off track		-	-	-	10	10	8	-	-	11	11	8	-	-	1	1
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					153	10	163			150	11	158			(6)	1	(5)
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	46	n/a	n/a	n/a	-	61	n/a	n/a	n/a	-	15
	Full conventional resignalling	SEU	424	85	36	-	36	-	-	43	-	43	(424)	(85)	7	-	7
	Modular resignalling	SEU	-	-	-	-	-	-	-	5	-	5	-	-	5	-	5
	ERTMS resignalling	SEU	-	-	10	-	10	-	-	2	-	2	-	-	(8)	-	(8)
	Partial conventional resignalling	SEU	-	3	-	-	-	8,000	1	8	-	8	8,000	(2)	8	-	8
	Targeted component renewal	SEU	-	-	-	-	-	429	7	3	-	3	429	7	3	-	3
	Level crossings	No.	2,143	7	15	-	15	1,900	10	19	-	19	(243)	3	4	-	4
	Signalling other		-	-	-	54	54	-	-	-	46	46	-	-	-	(8)	(8)
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	21	21	n/a	n/a	n/a	11	11	n/a	n/a	n/a	(10)	(10)
	Operating strategy other capex		n/a	n/a	n/a	8	8	n/a	n/a	n/a	7	7	n/a	n/a	n/a	(1)	(1)
	Minor works		n/a	n/a	n/a	25	25	n/a	n/a	n/a	21	21	n/a	n/a	n/a	(4)	(4)
	Centrally managed costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	7	7	n/a	n/a	n/a	7	7
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					61	54	115			80	46	126			19	(8)	11

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	65	n/a	n/a	n/a	-	67	n/a	n/a	n/a	-	2
	Underbridges	m2	4	5,912	26	-	26	1	22,671	51	-	51	(3)	16,759	25	-	25
	Overbridges (incl BG3)	m2	23	975	22	-	22	3	5,965	9	-	9	(19)	4,990	(13)	-	(13)
	Tunnels	m2	0	5,880	1	-	1	1	20	3	-	3	1	(5,860)	2	-	2
	Major structures	m2	-	-	-	16	16	-	-	-	4	4	-	-	-	(12)	(12)
	Other structures assets		n/a	n/a	n/a	-	3	n/a	n/a	n/a	-	4	n/a	n/a	n/a	-	1
	Culverts	m2	2	483	1	-	1	3	306	1	-	1	1	(177)	-	-	-
	Footbridges	m2	24	84	2	-	2	11	176	2	-	2	(12)	92	-	-	-
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m2	-	32	-	-	-	-	-	1	-	1	-	(32)	1	-	1
	Earthworks	5-chain	124	97	12	-	12	29	511	12	-	12	(94)	414	-	-	-
	EW Drainage		-	339	-	-	-	-	9,645	5	-	5	-	9,306	5	-	5
	Renewal	lm	-	79	-	-	-	-	1,656	-	-	-	-	1,577	-	-	-
	Refurbishment	lm	-	260	-	-	-	-	110	-	-	-	-	(150)	-	-	-
	Maintenance	lm	-	-	-	-	-	-	7,879	-	-	-	-	7,879	-	-	-
	New Build	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Structures other		-	-	-	7	7	-	-	-	1	1	-	n/a	-	(6)	(6)
	Other		-	-	-	-	-	-	-	-	(9)	(9)	-	n/a	-	(9)	(9)
	Total				64	23	87			84	(4)	80			20	(27)	(7)

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	15	n/a	n/a	n/a	-	16	n/a	n/a	n/a	-	1
	Footbridges	m2	6	160	1	-	1	-	1,172	n/a	n/a	-	n/a	1,012	n/a	n/a	-
	Train Sheds	m2	0	7,753	2	-	2	-	18,450	n/a	n/a	-	n/a	10,697	n/a	n/a	-
	Canopies	m2	0	38,660	2	-	2	-	5,580	n/a	n/a	-	n/a	(33,080)	n/a	n/a	-
	Platforms	m2	0	5,313	2	-	2	-	7,832	n/a	n/a	-	n/a	2,519	n/a	n/a	-
	Buildings	m2	0	14,695	1	-	1	-	1,420	n/a	n/a	-	n/a	(13,275)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	7	7	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	3	n/a	n/a	n/a	-	2	n/a	n/a	n/a	n/a	(1)
	Footbridges	m2	-	120	-	-	-	-	-	n/a	n/a	-	n/a	(120)	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	1,600	n/a	n/a	-	n/a	1,600	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	58	-	-	-	-	-	n/a	n/a	-	n/a	(58)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	1	-	1	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	2	2	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		7	140	1	-	1	-	-	-	-	3	n/a	(140)	n/a	n/a	2
	Buildings	m2	-	140	-	-	-	-	-	n/a	n/a	-	n/a	(140)	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lineside Buildings	m2	19	160	3	-	3	-	255	n/a	n/a	4	n/a	95	n/a	n/a	1
	MDU Buildings	m2	0	4,857	2	-	2	-	22,000	n/a	n/a	4	n/a	17,143	n/a	n/a	2
	Depot Plant		-	-	-	1	1	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	-
	NDS Depots		-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(7)	n/a	n/a	n/a	n/a	(7)
	Total				15	10	25			-	-	24			-	-	(1)

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	7	-	-	-	-	3	-	-	-	-	(4)
	Overhead Line Equipment (OLE) Re-wiring	wire runs	200	5	1	-	1	-	26	n/a	n/a	-	n/a	21	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	-	-	-	-	-	-	2	n/a	n/a	-	n/a	2	n/a	n/a	-
	Other		-	-	-	6	6	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	AC distribution		-	-	-	-	-	-	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	HV Switchgear Renewal	No.	-	4	-	-	-	-	-	n/a	n/a	-	n/a	(4)	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	2	-	-	-	-	-	n/a	n/a	-	n/a	(2)	n/a	n/a	-
	HV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Transformer Rectifiers	No.	-	4	-	-	-	-	-	n/a	n/a	-	n/a	(4)	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	8	-	-	n/a	n/a	9	n/a	n/a	n/a	n/a	1
	Signalling Power Cable Renewal	km	-	-	5	-	5	-	31	n/a	n/a	-	n/a	31	n/a	n/a	-
	Principle Supply Point Renewal	No.	125	8	1	-	1	-	-	n/a	n/a	-	n/a	(8)	n/a	n/a	-
	Other		-	-	-	2	2	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	4	-	-	-	-	65	n/a	n/a	-	n/a	61	n/a	n/a	-
	SCADA		-	-	-	-	-	-	-	n/a	n/a	4	n/a	n/a	n/a	n/a	4
	Energy efficiency		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	System capability / capacity		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other electrical power		-	-	-	2	2	-	-	n/a	n/a	3	n/a	n/a	n/a	n/a	1
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Total				7	10	17			-	-	22			-	-	5

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	-	-	-	-	-	4	n/a	n/a	n/a	n/a	4
	Customer Information Systems	No.	-	-	-	-	-	-	174	n/a	n/a	-	n/a	174	n/a	n/a	-
	Public Address CCTV	No.	-	20	-	-	-	-	593	n/a	n/a	-	n/a	573	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Operational Comms	No.	-	-	-	-	-	-	57	n/a	n/a	-	n/a	57	n/a	n/a	-
	PABX Concentrator	Lines	-	-	-	-	1	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: CCTV	Lines	-	7	-	-	-	-	79	n/a	n/a	-	n/a	72	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	1	-	1	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Emergency Telephone System	No.	-	11	-	-	-	-	1	n/a	n/a	-	n/a	(10)	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	2
	Projects and other		n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)
	Non route capex		n/a	n/a	n/a	10	10	n/a	n/a	n/a	n/a	7	n/a	n/a	n/a	n/a	(3)
	Total				1	13	14			-	-	16			-	-	2

Statement 14: Renewals volumes, unit costs and expenditure, London North East - continued

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual				2014-15 Network Rail Business Plan					Difference to Business Plan						
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	
Wheeled plant and machinery	High output		n/a	n/a	n/a	3	3	n/a	n/a	n/a	13	13	n/a	n/a	n/a	10	10	
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	
	Infrastructure monitoring		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2	
	Materials delivery		n/a	n/a	n/a	3	3	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(3)	(3)	
	On track plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	
	Seasonal		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4	
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Total					-	11	11			-	27	27			-	16	16	
IT			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	IM delivered renewals		n/a	n/a	n/a	22	22	n/a	n/a	n/a	20	20	n/a	n/a	n/a	(2)	(2)	
	Traffic management		n/a	n/a	n/a	-	2	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	2	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Total					-	22	24			-	24	24			-	2	-	
Property	MDUs/offices		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	
	Commercial estate		n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(1)	(1)	
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Total					-	4	4			-	3	3			-	(1)	(1)	
Other renewals	Asset information strategy		n/a	n/a	n/a	-	-	n/a	n/a	n/a	9	9	n/a	n/a	n/a	9	9	
	Intelligent infrastructure		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	
	Faster isolations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	7	7	n/a	n/a	n/a	7	7	
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Small plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
	CP4 Rollover		n/a	n/a	n/a	17	17	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(17)	(17)	
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	4	4	n/a	n/a	n/a	4	4	
	Total					-	20	20			-	23	23			-	3	3
	Total Renewals							480					503			-		

Statement 14: Renewals volumes, unit costs and expenditure, London North East – continued

in £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statement 9a.
- (3) Track - Conventional – over delivery due to re-profiling. Following the successful delivery in the current year the plans for later in the control period have been revised.
- (4) Track - High Output - this year the High Output programme has delivered slightly better than planned due to workbank planning improvements, which has cut shortfalls down to minimal levels across the route. Volumes have also been delivered at additional sites such as Crimdon Dean and Northorpe.
- (5) Track - Refurbishment – volumes delivered were higher than planned. This was mainly driven by the utilisation of local works delivery team with spare resource, allowing re-padding work to be accelerated from future years of the control period.
- (6) Track - Switches & Crossings - Switches & Crossings shortfall is driven predominantly by access restrictions on the East Coast Main Line. This work has been re-scheduled for 2015/16.
- (7) Track – Drainage – no volumes were include in Network Rail's published CP5 Business Plan for drainage in London North East across the control period.
- (8) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (9) Signalling - Full Conventional Resignalling - the workbank delivered was better than planned. This is due to work at Sudforth Lane which was originally planned for completion in CP4, and therefore omitted from the baseline CP5 plan, which has now commissioned following the postponement of its original completion following the well documented Hatfield Landslip.
- (10) Signalling - Targeted Component Renewal - volumes are currently behind plan mostly due to projects at Belmont and Norwood have been postponed pending a further specification to deliver the scheme optimally.
- (11) Structures - Underbridges - workbank is below plan. Work has been significantly inhibited due to the late award of framework contracts to third parties. Whilst this has caused a delay in the current year it is expected that this will be mostly caught up over the remainder of the control period. Securing the appropriate framework contracts allows for the optimal delivery of the structures workbank during the CP5.
- (12) Structures - Overbridges - workbank is below plan. This is the result of the aforementioned late award of framework contracts. Deferred volumes are planned to be recovered in future years of the control period.
- (13) Structures - Tunnels – volumes have been over delivered due to works being accelerated within the control period to maximise access opportunities, notably work at Standege, which was brought forward from 2015/16.

Statement 14: Renewals volumes, unit costs and expenditure, London North East – continued

in £m 2014-15 prices unless stated

- (14) Structures - Footbridges - workbank is below plan. This is the result of the aforementioned late award of framework contracts with activity now re-phased into later years.
- (15) Earthworks - volumes are below plan mainly due to delays associated with the finalisation of framework contracts (as noted above). Other contributory factors have been the impact of resource and deliverability restrictions and the prioritisation of emergency works following the emergence of additional work following the impact of extreme weather in 2013/14 upon the railway infrastructure.
- (16) Earthwork drainage - volumes of pipe works are substantively down from plan across all activity types. This is reflective of the fact that work of this nature is usually delivered alongside wider earthworks interventions and therefore widespread slippage would be expected given the general trend of under delivery witnessed for Earthworks.
- (17) Buildings - Franchised Stations – Volumes of canopies were above plan which is due to host of route painting schemes associated with the East Coast Phase 2 programme and other works across stations on the Herford Loop. Volumes in train sheds are down due to both York and Darlington slipping following the reallocation of works. Footbridge volumes are down due to substantive programme change in response to a mix of reprioritisation exercises and deliverability assessment. Platform volume variance on Doncaster and Harborough projects arising from lower level of activity required compared to initial estimates.
- (18) Buildings - Managed Stations – there as been increased volumes of Buildings renewed due to activity on Leeds Station, which were identified as important preventative works required to manage the asset.
- (19) Electrification - OLE Rewiring - volume associated with OLE wire runs volume has decreased from Network Rail's published CP5 Business Plan. This is due to the reprogramming over four years rather than two in order to deliver at a more efficient rate and improve productivity through use of the specialist OCR team and their wiring train. In addition, new OLE construction methodologies are under development to facilitate future wire run renewals within shorter possession times.
- (20) Electrification - DC Distribution – volumes are higher than planned to works originally planned in 13/14 on the Northern City line, which have now been funded and absorbed into the CP5 workbank.
- (21) Electrification - Signalling Power Cables - Volumes are below Network Rail's published CP5 Business Plan due to Doncaster Feeder Cables project where the required volumes are lower than the initial estimates suggested.
- (22) Electrification - Points Heaters - Volumes are below Network Rail's published CP5 Business Plan. It has become apparent that a reduced level of intervention is required as a result of improved asset condition information and targeted life extension works.
- (23) Telecoms - Station Information and Surveillance Systems (SISS) - There are a number of new SISS schemes where delivery was planned for 2014/15 but has been delayed by Network Rail's review of the SISS strategy. This has led to significant volume movements out of this year and into later years of CP5. In addition there were delays caused by listed buildings consent and original designs which were inappropriate and not fit for purpose.
- (24) Telecoms - Operational Comms – There has been less Processor Controlled Concentrators volumes delivered compared to plan due to commissioning dates moving from the latter periods of 2014/15 to early 2015/16.

Statement 1: Summary regulatory financial performance, London North West

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	975	968	7	960
Fixed Income	100	87	13	220
Variable Income	263	255	8	194
Other Single Till Income	159	160	(1)	152
Opex memorandum account	(3)	-	(3)	-
Total Income	1,494	1,470	24	1,526
Operating expenditure				
Network operations	113	108	(5)	119
Support costs	96	112	16	151
Traction electricity, industry costs and rates	124	121	(3)	128
Network maintenance	296	287	(9)	257
Schedule 4	54	49	(5)	28
Schedule 8	19	1	(18)	40
Total operating expenditure	702	678	(24)	723
Capital expenditure				
Renewals	626	520	(106)	887
PR13 enhancement expenditure	652	540	(112)	259
Non PR13 enhancement expenditure	38	-	(38)	231
Total capital expenditure	1,316	1,060	(256)	1,377
Other expenditure				
Financing costs	316	366	50	330
Corporation tax (received)/paid	(1)	1	2	(1)
Rebates	-	-	-	29
Total other expenditure	315	367	52	358
Total expenditure	2,333	2,105	(228)	2,458

Statement 1: Summary regulatory financial performance, London North West – continued

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was slightly higher than the determination due to favourable inflation movements and Network Rail providing additional services to operators. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was higher than the determination mostly due to higher electricity costs that Network Rail could pass onto operators. This is offset by higher Operating expenditure. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is broadly in line with the determination. The variances are set out in more detail in Statement 6b.
- (6) Income – Opex memorandum account – there is a minor amount reported this year. This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as delays in implementing efficiency initiatives. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher electricity costs which are largely recovered from operators through income. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination and the previous year which is mostly a result investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are higher than the determination due to possessions for renewal delivery costing more than anticipated, which was slightly offset by deferral of renewals activity (and so possessions costs). These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Operating expenditure - Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets for the first year of the control period. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is due to efficient overspends partly offset by phasing of activity. These variances are set out in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure is greater than determination. This is a combination of efficient overspends offset by re-profiling of programme delivery. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

Statement 1: Summary regulatory financial performance, London North West – continued

in £m 2014-15 prices unless stated

- (17) Other expenditure – Corporation tax - the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.
- (18) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

Statement 2a: RAB - regulatory financial position, London North West

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	10,318	10,318	-
Indexation to 2013-14 prices	273	273	-
Opening RAB for the year (2013-14 prices)	10,591	10,591	-
Indexation for the year	211	211	-
Opening RAB (2014-15 prices)	10,802	10,802	-
Adjustments for the actual capital expenditure outturn in			
CP4	307	-	307
Renewals	582	520	62
PR13 enhancements	645	482	163
Non-PR13 enhancements	29	-	29
Total enhancements	674	482	192
Amortisation	(530)	(530)	-
Adjustments for under-delivery of regulatory outputs	(1)	-	(1)
Closing RAB at 31 March 2015	11,834	11,274	560

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	10,802
Adjustments for the actual capital expenditure outturn in	
CP4	307
Renewals	582
PR13 enhancements	645
Non-PR13 enhancements	29
Total enhancements	674
Amortisation	(530)
Adjustments for under-delivery of regulatory outputs	(1)
Closing RAB	11,834

Statement 2a: RAB - Regulatory financial position, London North West – continued

in £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment (RAB increase) – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was mostly due to efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was higher than the regulator assumed. This was due to bringing forward enhancement activity and efficient overspends compared to the funding available (the value of which cannot all be logged by to the RAB). The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position. The missed outputs for the RAB this year relate to the estimated impact of missed enhancement milestones with notable contributions from North West electrification and Chiltern main line lengthening. This is an assessment based on information available but the regulator retains discretion over the final level of adjustment to be made.

Statement 2b: RAB - reconciliation of expenditure, London North West

in £m 2014-15 prices unless stated

Total as at 31/03/15

Renewals

Renewals per the PR13 determination	520
Adjustments to the PR13 determination	
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	29
Capitalised financing on CP4 deferrals	1
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (renewals)	550
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(106)
Capitalised financing on acceleration / (deferrals) of expenditure	(2)
Adjustments for efficient overspend	168
Capitalised financing on efficient overspend	4
25% retention of efficient overspend	(42)
Capitalised financing on efficient overspend 25% retention	(2)
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing on efficient underspend 25% retention	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments for efficient overspend through spend to save framework	15
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	(3)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other adjustments	-
Capitalised financing on other adjustments	-
Total Renewals (added to the RAB - see Statement 2a)	582
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	(1)
Adjustment for retention of efficient overspend (including spend to save adjustment)	45
Adjustment for retention of efficient underspend	-
Other adjustments	-
Total actual renewals expenditure (see statement 9)	626

Statement 2b: RAB - reconciliation of expenditure, London North West - continued

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	482
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	60
Capitalised financing on CP4 deferrals	2
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	-
Capitalised financing on adjustments to DfT funding	(1)
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (enhancements)	544
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	65
Capitalised financing on acceleration / (deferrals) of expenditure	1
Adjustments for efficient overspend	44
Capitalised financing on efficient overspend	1
25% retention of efficient overspend	(11)
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-
Capitalised financing relating to projects with tailored protocols or fixed price	-
Adjustments for efficient overspend through spend to save framework	1
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	645
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	29
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)
Capitalised financing on non-PR13 enhancements expenditure	1
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	-
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	29
Total enhancements (added to the RAB - see statement 2a)	674
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	(4)
Adjustment for retention of efficient overspend (including spend to save adjustment)	12
Other adjustments (including discretionary investment)	9
Adjustment for retention of efficient underspend	-
Non-PR13 enhancement expenditure	
Third party funded schemes	109
Other adjustments	(1)
Total actual enhancement expenditure (see statement 3)	799

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (10) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.

Statement 2b: RAB - reconciliation of expenditure, London North West – continued

in £m 2014-15 prices unless stated

- (11) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (12) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (13) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will receive the other 20 per cent of the expense through additional income during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (14) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (15) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB. In this instance, the difference mostly relates to overspends on the Manchester Victoria development works.
- (16) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to expenditure on Manchester Victoria station re-development and CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition.

Statement 3: Analysis of enhancement capital expenditure, London North West

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Funds			
East coast connectivity	-	-	-
Stations - National Station Improvement Programme (NSIP)	4	6	2
Stations - Access for All (AfA)	5	12	7
Development	10	8	(2)
Level crossing safety	5	6	1
Passenger journey improvement	-	17	17
The strategic rail freight network	1	18	17
Total funds	25	67	42
Committed projects			
East West Rail (committed scheme)	143	28	(115)
Northern Hub	164	80	(84)
IEP Programme	-	1	1
North Trans Pennine electrification West	3	17	14
NW Electrification	35	98	63
Stafford area improvement scheme	53	51	(2)
West coast power supply upgrade	56	66	10
Total committed projects	454	341	(113)
Named schemes			
The Electric Spine:			
DfT Sofa amount	2	1	(1)
Total Electric Spine projects	2	1	(1)
Midlands			
Walsall to Rugeley electrification	16	15	(1)
Total Midlands Projects	16	15	(1)
HLOS capacity metric schemes			
Chiltern Main Line Train Lengthening	6	1	(5)
North West train lengthening	-	3	3
Total HLOS capacity metric schemes	6	4	(2)
CP4 project rollovers			
Birmingham New St Gateway	99	68	(31)
Bromsgrove Elec - Midlands Improvements Programme (E-PR08-WP8)	7	5	(2)
Redditch Branch Enhancement	17	16	(1)
Station Security	-	1	1
Other CP4 Rollover	-	-	-
Total CP4 rollovers	123	90	(33)
Other projects			
Seven day railway projects	-	-	-
ERTMS Cab fitment	-	-	-
R&D allowance	1	2	1
Depots and stabling	11	-	(11)
Income generating property schemes	14	11	(3)
Other income generating investment framework schemes	-	9	9
Total other projects	26	22	(4)
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	652	540	(112)

Statement 3: Analysis of enhancement capital expenditure, London North West - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
B) Investments not included in PR13			
Government sponsored schemes			
Northern Hub, Huyton & Roby	21	-	(21)
Other government sponsored schemes	-	-	-
Total Government sponsored schemes	21	-	(21)
Network Rail spend to save schemes			
Acquisition of Freight Sites	7	-	(7)
Other spend to save schemes	-	-	-
Total Network Rail spend to save schemes	7	-	(7)
Total Schemes promoted by third parties	1	-	(1)
Discretionary Investment	9	-	(9)
Total non PR13 enhancement expenditure	38	-	(38)
Total Network Rail funded enhancements (see Statement 1)	690	540	(150)
Third Party PAYG	109	-	(109)
Total enhancements (see statement 2b)	799	540	(259)

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £690m (as shown in Statement 1). This comprises the total enhancement figure in the table above £799m less the PAYG schemes funded by third parties (£109m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when investment activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (c) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. The regulator assumed a different profile of expenditure in the determination compared to the profile planned by Network Rail resulting in additional expenditure this year but costs during the control period are not expected to exceed the funding available.

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2014-15 prices unless stated

- (d) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.
 - (e) The Strategic rail freight network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year was lower than the regulator assumed as work was re-profiled to later years.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) East West Rail - The objective of this project is to support economic growth along the line of route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is considerably higher than the PR13 allowance. Whilst there is some minor financial underperformance on this programme (refer to Statement 5a) the main reason for the increase in expenditure is due to acceleration of activity from future years. Network Rail's internal plan for 2014/15 expected to deliver more of the programme in 2014/15 than ORR's assumption.
 - (b) Northern Hub - The outputs from the Northern Hub are designed to facilitate the economic growth of the North of England through value for money improvements to rail services. Costs are significantly higher than the determination assumed as Network Rail is planning to deliver this programme in a different manner and to different timescales than the regulator's expectation.
 - (c) North Trans Pennine Electrification - This programme facilitates the introduction of electric train operation on passenger and freight services in the north of England. This programme is some way behind the schedule assumed by the regulator meaning that costs in 2014/15 are lower than the PR13.
 - (d) NW Electrification - This programme facilitates the introduction of electric train operation on passenger and freight services. The programme has synergies with North Trans Pennine Electrification discussed above and as with that programme progress has been slower than planned as Network Rail seeks to identify the optimal delivery strategy.
 - (e) West coast power supply upgrade – this programme aims to improve the provision of electricity along the line and is required to facilitate the NW Electrification programme referred to above. Although costs are lower than the regulator's expectation in 2014/15, the costs of the parts of the project delivered have been higher than planned. As a result financial underperformance has been recognised (refer to Statement 5a). Also, not all of the expenditure this year is eligible for addition to the RAB (refer to Statement 2a).
- (7) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
- (a) Chiltern Main Line Train Lengthening - This project will enhance Driver Only Operation equipment at five stations to deliver increased capacity into London Marylebone. Costs in the year were higher than the PR13 allowance mostly as a result of Network Rail accelerating work from future years but also as a result of higher costs than the ECAM funding. This is reported as financial underperformance (refer to Statement 5a) and not all of the expenditure is eligible for logging up to the RAB (refer to Statement 2a). The PR13 column does not reflect the updated funding arrangements set through the ECAM process so does not provide a useful benchmark.
- (8) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the PR13 column values in this statement. Notable variance between the funding available and actual spend in 2014/15 in these areas are noted below:

Statement 3: Analysis of enhancement capital expenditure, London North West – continued

in £m 2014-15 prices unless stated

- (a) Birmingham New Street Gateway - in order to improve passenger capacity and facilities at the station a programme was designed to be delivered in partnership with various local government agencies - notable Birmingham City Council. The costs of this programme across CP4 and CP5 have been higher than expected. This has resulted in the recognition of financial underperformance in both control periods.
- (9) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
 - (a) R&D allowance – the regulator assumed that Network Rail would invest this fund evenly over the control period. However, Network Rail have spent more slowly in the first year of the control period as it seeks to identify those schemes which will deliver maximum benefit to the industry. The R&D allowance is a new principle for control period 5 so Network Rail is considering the optimal use of this funding allowance.
 - (b) Depots and stabling – the regulator assumed that activity in this category will be substantially weighted towards future years of the control period whereas Network Rail is planning a more even phasing of expenditure.
 - (c) Income generating property schemes – Network Rail invested more in its commercial property estate than the regulator assumed. This was largely due to investments at Birmingham new Street and London Euston stations to develop the commercial offerings available.
 - (d) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
 - (a) Government sponsored – as expected, this is significantly lower than last year. Most of the large programmes funded through this mechanism last year (such as East-West rail and Electrification) have specific funding in the PR13 regulatory settlement and so the activity is included in the PR13 section of this statement. Intuitively, towards the end of a control period it would be likely that this level of expenditure would be relatively high as most programmes that emerge during the control period are likely to be funded through this mechanism. The major project in this area was Huyton & Roby.
 - (b) Discretionary investment – this relates to expenditure on Manchester Victoria station redevelopment and CP4 level crossing risk reduction fund. The latter fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).
 - (c) PAYGO – The most significant project in this area is Birmingham Gateway in 2014/15. Expenditure this year is higher than last year. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, London North West

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	7,271	7,229	(42)
Income			
Grant income	(975)	(968)	7
Fixed charges	(100)	(87)	13
Variable charges	(263)	(255)	8
Other single till income	(159)	(160)	(1)
Total income	(1,497)	(1,470)	27
Expenditure			
Network operations	113	108	(5)
Support costs	96	112	16
Traction electricity, industry costs and rates	124	121	(3)
Network maintenance	296	287	(9)
Schedule 4	54	49	(5)
Schedule 8	19	1	(18)
Renewals	626	520	(106)
PR13 enhancement	652	483	(169)
Non-PR13 enhancement	38	-	(38)
Total expenditure	2,018	1,681	(337)
Financing			
Interest expenditure on nominal debt - FIM covered	113	117	4
Interest expenditure on index linked debt - FIM covered	54	54	-
Expenditure on the FIM	81	82	1
Interest expenditure on government borrowing	21	-	(21)
Interest on cash balances held by Network Rail	(2)	(1)	1
Total interest costs	267	252	(15)
Accretion on index linked debt - FIM covered	49	114	65
Total financing costs	316	366	50
Corporation tax	(1)	1	2
Other	96	125	29
Movement in net debt	932	703	(229)
Closing net debt	8,203	7,932	(271)

D) Financial indicators

	2014-15 Actual	2014-15 PR13
Adjusted interest cover ratio (AICR)	1.01	1.04
FFO/interest	3.00	3.14
Net debt/RAB (gearing)	69.3%	70.4%
FFO/debt	9.7%	10.0%
RCF/debt	6.5%	6.8%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.2%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

Statement 4: Net debt and financial ratios, London North West – continued

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Debt attributable to London North West has increased by over £900m during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is over £250m higher than the regulator assumed. This is mostly due to higher investment in the railway network and higher than assumed opening net debt partly offset by lower than expected interest costs and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.

Statement 4: Net debt and financial ratios, London North West – continued

in £m nominal unless otherwise stated

- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed. The rates for this type of debt have been generally in line with expectation but, as discussed above, Network Rail has reduced the proportion of index-linked debt held.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Corporation tax – the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.

(14) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(15) 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 April 2014. ****Retained cash flow (RCF) is defined as FFO minus net interest.

(16) Financial indicators – AICR – a ratio of less than 1 suggests that the route is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). Actual AICR was broadly in line with the regulator's assumption.

(17) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m.

in £m 2014-15 prices unless stated

[illegible]

Statement 5a: Total financial performance, London North West - continued

in £m 2014-15 prices unless stated

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Variable income:						
Adjustments for external traction electricity	(59)	(51)	(8)	(59)	(51)	(8)
Total variance not included in total financial performance:	(59)	(51)	(8)	(59)	(51)	(8)

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Support costs:						
Release of CP4 long distance financial penalty provision	6	-	6	6	-	6
Total variance not included in total financial performance:	6	-	6	6	-	6

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Traction electricity:						
Adjustments for external traction electricity	59	51	8	59	51	8
Total variance not included in total financial performance:	59	51	8	59	51	8

Statement 5a: Total financial performance, London North West – continued

in £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – the variance that has arisen is largely due to non-PR13 income and inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for these items.
- (3) Other single till income – The small underperformance recognised in Other single till income is mainly due to decreased freight income offset by increased stations income.
- (4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (5) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate. The determination assumed that Network Rail would exit the control period with a lower cost base. However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a cost base 7 per cent higher than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely.

Statement 5a: Total financial performance, London North West – continued

in £m 2014-15 prices unless stated

- (6) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (7) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police (BTP) costs compared to the assumption in the determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.
- (8) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (9) Reporters' fees – generally, 25 per cent of any financial out/ under performance is retained by Network Rail. In the current year, the variance in reporters' fees is considered to be timing which is expected to reverse by the end of the control period. Therefore, none of the variance has been included as FPM in the current year.
- (10) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on variances in reactive maintenance spend in the opening year of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved. Underlying Network maintenance costs are notably higher than the determination. A notable contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs. Also, extra maintenance subcontractor costs were involved to resolve performance issues in the Watford area and North London lines. Finally, additional materials and repaid costs were required to maintain asset functionality on the network.
- (11) Schedule 4 costs – costs were higher than the regulator assumed. Added to this is the fact that where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to Schedule 4 so that a fair assessment of financial performance can be made. Higher costs due to emergency possessions to deal with the Harbury land slip (possessions taken at short notice result in higher levels of compensation payable to operators), and an overall higher cost than the modelled baselines suggested led to the financial underperformance in the year.
- (12) Schedule 8 costs – the additional cost compared to the determination is due to lower than expected train performance partly as a result of worse CP4 output. A number of asset failures during the year contributed to delays and so pay outs to operators.
- (13) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.

Statement 5a: Total financial performance, London North West – continued

in £m 2014-15 prices unless stated

- (14) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (15) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. Negative FPM has been recognised in the year with regard to Manchester Victoria redevelopment works where the expected final costs are higher than the amount the regulator has permitted to be added to the RAB.
- (16) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.
- (17) Corporation tax – whilst corporation tax variances are within the scope of FPM, it is uncertain that gains made in the current year will continue throughout the control period. Given this uncertainty, no FPM has been recognised at this time and so the saving compared to the PR13 baseline has been treated as neutral for the current year. This will be reviewed and updated in future years.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North West were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North West also faces a reduction for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in London North West were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) London North West also faces a reduction for this missed output.
- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. There are notable contributions from North West electrification and Chiltern main line electrification.

Statement 5b: Total financial performance - renewals variance analysis, London North West

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(66)	22	(88)	(22)		(23)	1	-
Signalling	(29)	7	(36)	(9)		(3)	(6)	-
Civils	8	16	(8)	(2)		(2)	-	-
Buildings	7	15	(8)	(2)		-	(2)	-
Electrical power and fixed plant	30	42	(12)	(3)		-	(3)	-
Telecoms	5	9	(4)	(1)		-	(1)	-
Wheeled plant and machinery	22	22	-	-		-	-	-
IT	(19)	(19)	-	-		-	-	-
Property	(1)	(1)	-	-		-	-	-
Other renewals	(63)	(51)	(12)	(3)		1	(4)	-
Total	(106)	62	(168)	(42)		(27)	(15)	-

Where:

C = A - B

D = C x 25%

And:

D = E + F + G

Statement 5b: Total financial performance - renewals variance analysis, London North West - continued

in £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines (April 2014)) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable financial underperformance in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Costs in the current year have also suffered from contractor productivity issues and the delay in implementing new working methods (including more in-house delivery). Cost and budgetary pressures has also resulted in a reduction in volumes planned over the control period. However, there is not a proportionate link between reductions in volumes and reductions in cost and so falling volumes leads to an increase in average costs of each remaining job. Additional costs connected with S&C renewals as part of the Watford re-signalling project also resulted in recognition of financial underperformance.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes. Additional scope and cost for Watford and Wolverhampton has adversely affected financial performance. Signalling FPM has also been impacted by projects rolled over from CP4 for which the ORR has not provided any funding, including Rugby ROC (Regional Operating Centre) projects and the unforeseen settlement of a commercial claim. The delay in completing the ROC projects has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned.
- (4) Civils – cost overruns across a number of projects have contributed to the negative Civils FPM this year. Most of this related to expected contracting efficiencies that did not materialise. The baselines for the year were constructed assuming a standard set of rates with efficiencies embedded within them. However, delivery costs have been higher than planned. In addition, there were some jobs completed that were not in the plan for 2014/15 as they were expected to be finished before the end of CP4.
- (5) Buildings – financial underperformance reported due to extra scope from projects not finished in CP4 for which ORR did not provide any additional funding. Completing these projects was fundamental to managing the asset in a responsible way which necessitated the additional costs.
- (6) Electrical power and fixed plant – majority of financial underperformance arises from extra scope with projects rolled over from CP4 for which ORR did not provide any additional funding. Completing these projects was fundamental to managing the asset in a responsible way which necessitated the additional costs.
- (7) Telecoms – in the face of increased challenges in supporting the expanding railway and technological advances a number of additional projects have been identified in the telecoms workbank for CP4. This has increased the total costs of the telecoms asset category over the control period creating negative FPM, a portion of which has been recognised in 2014/15.
- (8) Other renewals – this is mainly due to additional expenses on FTN project rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of the FTN programme is expected to exceed the amounts made available by the regulator. As the FTN project has not finished not all of the expected FPM has been recognised in 2014/15, and the additional negative FPM will crystallise later in the control period when the programme completes.

Statement 5c: Total financial performance - enhancement variance analysis, London North West

in £m 2014-15 prices unless stated

			2014-15			
	Variance to	Variance due	Deferral/	Other	Final	Financial out/
	adjusted PR13	to ECAM	(acceleration)	adjustments	Variance	(under)
		adjustment	of work			performance
East West Rail (committed scheme)	(109)	(7)	(112)	-	(4)	(1)
Stafford area improvement scheme	(2)	8	6	-	-	-
West coast power supply upgrade	10	2	32	-	(20)	(5)
Walsall to Rugeley electrification	(1)	10	9	-	-	-
Chiltern Main Line Train Lengthening	(5)	-	(5)	-	-	-
Birmingham New St Gateway	(31)	-	(11)	-	(20)	(5)
Manchester Victoria	(8)	-	-	-	(8)	(8)
Other Enhancements	(4)	-	(4)	-	-	-
Total	(150)	13	(85)	-	(52)	(19)

Statement 5c: Total financial performance - enhancement variance analysis, London North West – continued

in £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) As part of the ECAM process, ORR reduced the agreed efficient price of each programme by 3 per cent to reflect a stretch target that the regulator imposed. Therefore, once a programme has been through the ECAM process it is likely that it would expect to have negative FPM as the funding has been reduced by 3 per cent but the programme has not had long enough to realise any savings to offset this 3 per cent. Against this regime it is unsurprising that Network Rail is reporting negative FPM on programmes that have been through ECAM.
- (2) East West Rail – the majority of the underperformance has arisen from the 3 per cent stretch on the regulatory allowance imposed by ORR as part of the ECAM process.
- (3) West coast power supply upgrade – the costs of this programme are expected to significantly exceed the funding available through the ECAM process. This increase is due to various factors including: programme delays following change of contractor due to safety concerns, reduced site access and an increase in the volume of safety critical staff required to deliver the programme, additional de-vegetation, trough clearance and remediation works, extra scope (higher number of auto transformer feeder switches and circuit breakers required compared to plan).
- (4) Birmingham New St Gateway – this programme had significant financial underperformance in CP4 (as measured through Financial Value Added) and continues to overspend in CP5 mainly due to programme delays which incur contractor costs as the most efficient way to complete the project for the money available is assessed. Also, further discoveries of asbestos on site have increased costs (this also impacted costs and Financial Value Added in CP4) as has problems with the integrity of atrium steelworks and other unforeseen structural defects that require remediation.
- (5) Manchester Victoria – redevelopment work at this station is expected to cost more than the amount Network Rail are permitted to add to the RAB. No adjustment has been made for efficient overspend on this project to recognise that the extra discretionary expenditure undertaken is not eligible for RAB addition.

Statement 5d: REBS Reconciliation, London North West

in £m 2014-15 prices unless stated

	A	B	Cumulative to 2014-15		E	F	G
			C	D			
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	59	61	(2)	-	-	-	(2)
Capacity charge	118	120	(2)	-	-	-	(2)
Electricity asset utilisation charge	5	5	-	-	-	-	-
Property income [2]	50	47	3	-	-	-	3
Expenditure							
Network operations	113	121	8	-	-	-	8
Support costs	95	108	13	-	6	-	7
RSSB and BT Police	22	19	(3)	-	-	-	(3)
Network maintenance	296	274	(22)	9	-	-	(31)
Schedule 4 costs	54	39	(15)	(7)	-	-	(8)
Schedule 8 costs	19	1	(18)	-	-	-	(18)
Renewals	626	505	(121)	47	-	(126)	(42)
Total REBS performance	-	-	(159)	49	6	(126)	(88)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(17)
Under-delivery of train performance requirements (CaSL)							(5)
Missed Enhancement milestones							(1)
Total adjustment for under delivery of outputs and reduced sustainability							(23)
Cumulative performance to end of 2014-15							(111)
Net REBS performance for 2014-15							(111)

Where: $C = B - A$

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

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

Statement 5d: Total financial performance – REBS performance, London North West – continued

in £m 2014-15 prices unless stated

Notes:

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

Statement 6a: Analysis of income, London North West

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	975	968	7	960
Franchised track access income				
Fixed charges	100	87	13	220
Variable charges	-	-	-	-
Variable usage charge	45	45	-	47
Traction electricity charges	59	51	8	61
Electrification asset usage charge	5	5	-	2
Capacity charge	117	118	(1)	50
Station usage charge	-	-	-	-
Schedule 4 net income	37	36	1	34
Schedule 8 net income	-	-	-	-
Total Variable charges income	263	255	8	194
Total franchised track access income	363	342	21	414
	-	-	-	-
Total franchised track access and grant income	1,338	1,310	28	1,374
Other single till income				
Property income	51	51	-	41
Freight income	20	22	(2)	20
Open access income	1	1	-	-
Stations income	63	60	3	68
Facility and financing charges	12	13	(1)	11
Depots Income	11	11	-	10
Other income	1	2	(1)	2
Total other single till income	159	160	(1)	152
Total income	1,497	1,470	27	1,526

Statement 6a: Analysis of income, London North West – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Fixed charges – fixed charge income was slightly higher than the determination. This is partly due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual fixed charge payments made by operators which are calculated using the November 2013 RPI in line with the track access contractual arrangements. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Fixed charges also relate to additional income arising from non-PR13 items, notably connected with extra services provided on the Chiltern line. Fixed charges cannot be compared to the prior year figure in a meaningful way. The amount of fixed charge income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The decrease in fixed charges compared to 2013/14 is partly offset by higher grant income received from government. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5. The remaining difference is due to additional income Network Rail has earned from the provision of additional services to operators.

Statement 6a: Analysis of income, London North West – continued

in £m 2014-15 prices unless stated

- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is higher than the determination due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. However this is balanced by an overspend on electricity costs (as shown in Statement 7a). Traction electricity charges are in line with the previous year.
- (5) Electrification asset usage charge – income is in line with the determination but higher than the previous year due to changes in the regulatory regime this control period.
- (6) Capacity charge - this is broadly in line with the determination. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore the in year figure cannot be compared to 2013/14 in a meaningful way.
- (7) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Despite changes in the compensation rates in control period 5 compared to control period 4, income is broadly in line with the previous year.
- (8) Property income – this is on line with the determination due to both lower rental income but higher property sales. Lower rental income is mostly due to differences between the assumptions made by the regulator about rental yields in 2014/15 compared to the current market position. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Property income is slightly higher than the previous year with the largest contribution arising from property sales.

Statement 6b: Analysis of other single till income, London North West (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property Income				
Property rental	41	51	(10)	35
Property sales	10	6	4	6
Adjustment for commercial opex	-	(6)	6	-
Total property income	51	51	-	41
Freight income				
Freight variable usage charge	14	15	(1)	14
Freight traction electricity charges	4	4	-	2
Freight electrification asset usage charge	-	-	-	-
Freight capacity charge	1	1	-	1
Freight only line charge	1	1	-	1
Freight specific charge	-	-	-	-
Freight other income	-	-	-	1
Freight coal spillage charge	-	1	(1)	1
Total freight income	20	22	(2)	20
Open access income				
Variable usage charge income	-	-	-	-
Open access capacity charge	-	-	-	-
Open access traction electricity charges	1	1	-	-
Fixed contractual contribution	-	-	-	-
Open access other income	-	-	-	-
Total open access income	1	1	-	-
Stations income				
Managed stations income				
Long term charge	7	7	-	5
Qualifying expenditure	17	15	2	15
Total managed stations income	24	22	2	20
Franchised stations income				
Long term charge	32	32	-	41
Stations lease income	7	6	1	7
Total franchised stations income	39	38	1	48
Total stations income	63	60	3	68
Facility and financing charges				
Facility charges	12	13	(1)	11
Crossrail finance charge	-	-	-	-
Welsh Valleys finance charge	-	-	-	-
Total facility and financing charges	12	13	(1)	11
Depots income	11	11	-	10
Other	1	2	(1)	2
Total other single till income	159	160	(1)	152

Statement 6b: Analysis of other single till income, London North West (unaudited) - continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	58	57	(1)	59
Signalling shift managers	3	3	-	4
Local operations managers	4	4	-	3
Controllers	8	8	-	8
Electrical control room operators	3	3	-	1
Total signaller expenditure	76	75	(1)	75
Non-signaller expenditure				
Mobile operations managers	10	9	(1)	11
Managed stations	13	9	(4)	12
Performance	3	3	-	2
Customer relationship executives	3	1	(2)	1
Route enhancement managers	5	-	(5)	(1)
Weather	-	5	5	-
Other	3	3	-	2
Operations delivery	-	-	-	-
HQ - Operations services	-	-	-	-
HQ - Performance and planning	-	-	-	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	12	8	(4)	17
Other operating income	(12)	(5)	7	-
Total non-signaller expenditure	37	33	(4)	44
Total network operations expenditure	113	108	(5)	119
Support costs				
Core support costs				
Human resources	11	16	5	15
Information management	19	14	(5)	14
Government and corporate affairs	4	5	1	4
Group strategy	-	1	1	4
Finance	4	8	4	3
Business services	5	3	(2)	3
Accommodation	12	15	3	21
Utilities	9	10	1	11
Insurance	11	12	1	9
Legal and inquiry	3	2	(1)	2
Safety and sustainable development	7	2	(5)	5
Strategic sourcing	1	2	1	1
Business change	2	2	-	1
Other corporate functions	7	2	(5)	6
Core support costs	95	94	(1)	99
Other support costs				
Asset management services	8	9	1	11
Network Rail telecoms	12	11	(1)	12
National delivery service	-	1	1	1
Infrastructure Projects	(5)	-	5	(14)
Commercial property	-	(2)	(2)	6
Group costs	(14)	(1)	13	36
Total other support costs	1	18	17	52
Total support costs	96	112	16	151
Traction electricity, industry costs and rates				
Traction electricity	63	59	(4)	66
Business rates	38	37	(1)	36
British transport police costs	20	18	(2)	19
RSSB costs	2	1	(1)	2
ORR licence fee and railway safety levy	1	3	2	5
Reporters fees	-	2	2	-
Other industry costs	-	1	1	-
Total traction electricity, industry costs and rates	124	121	(3)	128
Total network operations expenditure, support costs, traction electricity, industry costs and rates	333	341	8	398

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 with a lower Network Operations cost base than they did as efficiencies that were expected to occur in the final years of CP4 did not materialise. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, there have been delays implementing efficiency strategies in the current year. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that ceteris paribus, costs would exceed the regulatory allowance for 2014/15. Costs are lower than the previous year as some efficiencies have been made. In addition, there were some non-recurring costs in 2013/14.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (5) Human Resources - costs are noticeably lower than the determination and the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Further breakdown of HR costs can be found in Statement 7b.
- (6) Information Management – costs are higher than the determination and the previous year. This increase in cost compared to the prior year was expected in the regulator's determination in order to fund the requirement of the Traffic Management system. This is a cross-functional initiative aimed at improving network capability for predicting and managing disruptions in conjunction with operator organisations. This programme has been delayed but IM have brought forward some other initiatives from later in the control period such as upgrades to equipment to utilise the spare resources in the department.
- (7) Finance – costs were noticeably lower than the determination. As noted in last year's Regulatory financial statements this is due to the process of devolution as central activities were moved to Network Rail's operating routes in order to support a more devolved organisation to develop tighter control of costs and a better level of service. As responsibility for these services had already transferred in 2013/14 year-on-year costs are consistent.

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

in £m 2014-15 prices unless stated

- (8) Safety and sustainable development - Costs are much higher than the determination and the previous financial year. This is due to the company focussing even more on safety by investing in a variety of important initiatives such as the Business Critical Rules programme, which aims to provide clear, consistent and up-to-date guidance on how Network Rail staff should operate in order to reduce risk and improve safety and operational performance. In the prior year and in the determination some of these activities were included in the Asset Management category so these extra costs compared to the PR13 are funded by savings made in these areas.
- (9) Infrastructure Projects - most of the costs incurred by projects are capitalised and therefore, there is usually minimal net costs within Infrastructure Projects. The amount in Infrastructure Projects for the current year relates to Property recharges for office space used by Infrastructure Projects staff which is recovered to the cost of the projects this function delivers.
- (10) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (11) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher electricity charges and British Transport Police costs.
- (12) Traction electricity – costs are in line with the prior year but significantly higher than the determination. Network Rail has limited ability to influence traction electricity costs which are driven by the prevailing market rates of these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in the financial year are higher than the determination due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also higher than the Regulator assumed.
- (13) British transport police (BTP) costs - costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were noticeably higher than the regulator assumed when preparing their CP5 determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.
- (14) Reporters fees – variances to the determination are largely considered timing in nature and are expected to be in line with the regulatory allowance over the course of the control period. Consequently, this variance has been treated as neutral when assessing financial performance (refer to Statement 5a).

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North West (unaudited)

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	56	62
Operations and customer services non-signalling	-	-
MOMS	6	10
Control	10	13
Planning & Performance Staff Costs	7	10
Managed Stations Staff Costs	4	6
Operations Management Staff Costs	6	12
Other	30	(2)
Total operations & customer services costs	119	111
Total Network Operations	119	111
Support		
Human resources		
Functional support	6	5
Training (inc Westwood)	5	2
Graduates	1	-
Apprenticeships	2	2
Other	1	2
Total human resources	15	11
Information management		
Support	1	1
Projects	2	1
Licences	-	-
Business operations	11	17
Other	-	-
Total information management	14	19
Finance	3	4
Business Change	2	2
Contracts & procurement	2	-
Strategic Sourcing (National Supply Chain)	-	1
Planning & development	4	-
Safety & compliance	5	-
Other corporate services	13	4
Commercial property	25	12
Infrastructure Projects	(13)	(5)
Route Services	2	4
Asset management & Engineering/Asset heads	34	-
National delivery service	2	-
Utilities	-	9
Network Rail telecoms	-	12
Digital Railway	-	4
Safety Technical & Engineering	-	10
Government & Corporate Affairs	-	4
Business Services	-	5
Route Asset Management	-	-
Legal and inquiry	-	3
Group/central		
Pensions	1	-
Insurance	9	11
Redundancy/reorganisation costs	16	4
Staff incentives/Bonus Reduction	2	(6)
Accommodation & Support Recharges	(2)	(7)
ORR financial penalty	19	(6)
Other	1	1
Total group/central costs	45	(3)
Total support	153	96
Total network operations and support costs	272	207

Statement 7b: Analysis of network operations expenditure and support costs by activity, London North West (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 8a: Summary analysis of network maintenance expenditure, London North West

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	135	113	(22)	125
Signalling	47	36	(11)	42
Civils	25	34	9	23
Buildings	6	12	6	-
Electrical power and fixed plant	28	23	(5)	28
Telecoms	6	4	(2)	9
Other network operations	47	49	2	24
Asset management services	8	9	1	7
National Delivery Service	(1)	10	11	2
Property	1	1	-	1
Group	(6)	(4)	2	(4)
Total maintenance expenditure	296	287	(9)	257

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

in £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are higher than the determination and the prior year. The main contributor to this was Network Rail's decision to reduce the level of incentive payouts to senior management and instead, re-invest this money into programmes to improve the safety and performance of the network. A significant amount was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Therefore, Network Rail were planning to have higher track maintenance costs than the PR13 even if National Delivery Services were not off-charged. Costs are in line with the previous year, which also included a full off-charge of National Delivery Services activities, despite an increase in network traffic (and so wear and tear on the network) compared to CP4.
- (4) Signalling - costs are higher than the determination and the previous year. One of the notable contributing factors has been the delay in implementing renewals programmes, necessitating greater maintenance costs to sustain the quality of the asset. Also, Network Rail has increased the level of maintenance to try to reduce the number of signalling failures and so improve train performance, reducing passenger delays and Schedule 8 costs. Network Rail's measure of signalling reliability has been higher than target for the second half of the year, suggesting that this approach has been successful. As the CP4 exit rate for signalling maintenance costs was higher than planned it was probable that the regulator's cost target would not be achieved in 2014/15.
- (5) Civils – the largest influence on the costs being lower than the determination was lower Reactive Maintenance. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are largely in line with the prior year.
- (6) Buildings – Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance between the actual and PR13 in the year is mostly due to differences in the reactive maintenance spend which has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

Statement 8a: Summary analysis of network maintenance expenditure, London North West – continued

in £m 2014-15 prices unless stated

- (7) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category. Costs are noticeably higher than 2013/14 which is a combination of the investment in the programmes noted above and a significant increase in the asset management organisation within the routes. As part of the move towards a devolved, more accountable railway the capabilities and responsibilities of the local asset management teams have increased significantly since 2013/14, as planned in Network Rail's plans for CP5, and reflected in the expenditure allowances set by the regulator.
- (8) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The small credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided.

Statement 9a: Summary analysis of renewals expenditure, London North West

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	208	142	(66)	230
Signalling	149	120	(29)	126
Civils	98	106	8	155
Buildings	40	47	7	140
Electrical power and fixed plant	18	48	30	39
Telecoms	20	25	5	45
Wheeled plant and machinery	16	38	22	11
Information Technology	40	21	(19)	25
Property	5	4	(1)	13
Other renewals	32	(31)	(63)	103
Total renewals expenditure	626	520	(106)	887

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – track costs are higher than the regulator assumed. Network Rail's planned expenditure this year expected an overspend of approximately £40m on a like-for-like basis. This higher cost was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Costs were higher than Network Rail planned as expected contractor savings did not materialise. In addition, planned efficiencies from improved working practices have yet to yield the expected savings. Also, S&C costs on the Watford re-signalling programme were higher than anticipated. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Expenditure was lower than the previous year with mainly as a result of lower volumes delivered in the current year. In CP4 a great deal of track activity was delivered towards the end of the five-year period.
- (3) Signalling – overall, expenditure was higher than the determination expected. However, this was largely due to higher than expected costs on a like for like basis. These extra costs included increases in the expected total costs of some large multi-year re-signalling projects such as Watford. Also, there were extra costs incurred from completing some control period 4 projects for which the regulator has not provided any funding, notably ROC (Regional Operating Centre) projects at Rugby. Completion of the ROC projects are fundamental to the successful implementation of the Network Operating Strategy which is supposed to generate long-term operational savings and performance improvements through rationalising the number of signalling boxes Network Rail uses. This has partially been offset by deferral of activity. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is generally in line with the previous year.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

in £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Civils underbridges – expenditure was lower than the regulator assumed largely due to a re-profiling of volumes until later years of the control period. Earthworks expenditure is higher than the regulator's assumption due to increased amounts of emergency works. The extreme weather in 2013/14 impacted upon the railway infrastructure requiring remedial costs which have been recognised in the current year. Expenditure is noticeably lower than the previous year. In CP4 Government provided some additional funds for accelerated civils expenditure as part of a fiscal stimulus package for the economy.
- (5) Buildings – expenditure in the year was lower than the determination. The main reason for this is decreased spending on Franchised stations offset by increased spending on Lineside and MDU buildings. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4. In addition, costs in 2013/14 were distorted by the impact of additional works at Birmingham New Street that the regulator consented to be treated as efficient overspend within the Buildings portfolio. Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (6) Electrical power and fixed plant – expenditure in the year was noticeable lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant, AC Distribution & SCADA as Network Rail seeks to find optimal delivery strategies for these programmes. The SCADA activity planned for CP4 did not materialise which has delayed delivery of the CP5 activity. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (7) Telecoms – expenditure in the year was slightly below the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. The largest contributor to the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements. Telecoms financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2).
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5). Expenditure is higher than the previous year due to additional High output plant purchases and increased spend on Intervention items.

Statement 9a: Summary analysis of renewals expenditure, London North West – continued

in £m 2014-15 prices unless stated

(9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a “spend to save” framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.

(10) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail’s ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, although there has been spend on ORBIS this year, as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR’s view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- d. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN and ORBIS (as noted above). Expenditure on the FTN programme has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company’s financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

Statement 9b: Detailed analysis of renewals expenditure, London North West (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	56	45	(11)
High output renewal	77	43	(34)
Plain line refurbishment	10	8	(2)
S&C renewal	47	27	(20)
S&C refurbishment	2	3	1
Track non-volume	10	11	1
Off track	6	5	(1)
Total track	208	142	(66)
Signalling			
Full conventional resignalling	91	97	6
Modular resignalling	-	2	2
ERTMS resignalling	-	-	-
Partial conventional resignalling	9	9	-
Targeted component renewal	3	5	2
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	-	-	-
Operating strategy other capital expenditure	22	18	(4)
Level crossings	7	4	(3)
Minor works	15	(24)	(39)
Centrally managed costs	2	9	7
Total signalling	149	120	(29)
Civils			
Underbridges	31	45	14
Overbridges	9	8	(1)
Bridgeguard 3	1	-	(1)
Major structures	9	3	(6)
Tunnels	8	11	3
Other assets	8	13	5
Structures other	2	4	2
Earthworks	31	22	(9)
Other	(1)	-	1
Total civils	98	106	8
Buildings			
Managed stations	6	9	3
Franchised stations	28	32	4
Light maint depots	1	1	-
Depot plant	-	2	2
Lineside buildings	2	1	(1)
MDU buildings	3	2	(1)
NDS depots	-	-	-
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	40	47	7

Statement 9b: Detailed analysis of renewals expenditure, London North West (unaudited) - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	-	8	8
Overhead Line	3	2	(1)
DC distribution	-	4	4
Conductor rail	-	-	-
SCADA	-	7	7
Energy efficiency	-	-	-
System capability / capacity	-	1	1
Other electrical power	3	2	(1)
Fixed plant and rail heating	12	24	12
Total electrical power and plant	18	48	30
Telecoms			
Operational communications	-	1	1
Network	1	2	1
SISS	2	7	5
Projects and other	2	7	5
Non-route capital expenditure	15	8	(7)
Total telecoms	20	25	5
Wheeled plant and machinery			
High output	4	19	15
Incident response	-	1	1
Infrastructure monitoring	1	2	1
Intervention	2	6	4
Materials delivery	5	-	(5)
On track plant	2	1	(1)
Seasonal	-	7	7
Locomotives	-	-	-
Fleet support plant	-	1	1
Road vehicles	2	1	(1)
S&C delivery	-	-	-
Total wheeled plant and machinery	16	38	22
Information Technology			
IM delivered renewals	33	19	(14)
Traffic management	7	2	(5)
Total information technology	40	21	(19)
Property			
MDUs/offices	5	3	(2)
Commercial estate	-	1	1
Corporate services	-	-	-
Total property	5	4	(1)
Other renewals			
Asset information strategy	1	15	14
Intelligent infrastructure	3	4	1
Faster isolations	1	9	8
LOWS	-	-	-
Small plant	2	2	-
Research and development	-	-	-
Phasing overlay	-	(61)	(61)
Engineering innovation fund	-	-	-
CP4 rollover	25	-	(25)
Other	-	-	-
West Coast	-	-	-
Total other renewals	32	(31)	(63)
Total renewals	626	520	(106)

Statement 9b: Detailed analysis of renewals expenditure, London North West (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, London North West

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	54	49	(5)	28
Access charge supplement Income	(37)	(36)	1	(34)
Net (income)/cost	17	13	(4)	(6)
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	19	1	(18)	40
Access charge supplement Income	-	-	-	-
Net (income)/cost	19	1	(18)	40

B) Opex memorandum account

	2014-15
Volume incentive	2
Proposed income/(expenditure) to be included in the CP6	
Business Rates	1
RSSB Costs	1
ORR licence fee and railway safety levy	(2)
Reporters fees	(2)
Other industry costs	(1)
Difference in CP4 opex memo	(2)
Proposed Opex to be included in the CP5 expenditure allowance	-
Total logged up items	(3)

Statement 10: Other information, London North West – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are higher than the determination due to less efficient possessions that planning. The allowances for possessions are based on a hypothetical modelled rate which did not reflect the costs of possessions for the work required in the route. The underlying underperformance (once the baseline allowance has been adjusted to reflect the works delivered) is higher (as set out in Statement 5a). There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the in-year cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2014/15. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2014/15 unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the year, with the majority of delay minutes being associated with infrastructure failures. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the in-year cost cannot be compared to the 2013/14 number in a meaningful way.
- (3) The opex memorandum currently shows a minor net cost (mostly relating the Volume incentive as shown in Statement 12). This means that Network Rail's income in the PR18 will be adjusted to reflect this subject to the regulator's overall funding decisions for CP6.

Statement 12: Volume incentives, London North West

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year	2013-14 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	(1)	-	70	70	1.0%	1.46	pence per passenger train mile
Passenger farebox (millions)	4	1	1,839	1,761	2.4%	2.5%	% of additional farebox revenue
Freight train miles (millions)	3	1	7	7	2.1%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	1	-	6,831	6,473	3.1%	2.50	pence per freight 1,000 gross tonne mile
Total volume incentive	7	2					

The cumulative volume incentive is determined by the formula: $(A_t - (B_t - 1 \times (1 + C_t))) \times D \times 5$

Where:

A_t = Actual in year quantity

B = 2014-15 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, London North West – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £2m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, London North West

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business		Difference to Business		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	7,411	808	5,988	-	5,988	1,625	-	817	n/a
MNT005	Plain Line Stoneblowing (km)	km	12,378	217	2,686	-	2,686	771	-	554	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	243	3,837	931	-	931	5,022	-	1,185	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	281	1,494	420	-	420	1,895	-	401	n/a
MNT007	S&C Tamping (point end)	Point end	4,974	929	4,621	-	4,621	1,131	-	202	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	456	3,185	1,452	-	1,452	2,042	-	(1,143)	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	127	13,951	1,772	-	1,772	13,552	-	(399)	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	1,879	968	1,819	-	1,819	891	-	(77)	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	5	688,892	3,377	-	3,377	371,354	-	(317,538)	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	16	103,250	1,697	-	1,697	98,086	-	(5,164)	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	19	366,958	7,029	-	7,029	317,068	-	(49,890)	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	16	129,039	2,069	-	2,069	-	-	(129,039)	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	17,920	138	2,473	-	2,473	177	-	39	n/a
MNT122	S&C Maintenance (point end)	Point end	47	133,580	6,313	-	6,313	135,341	-	1,761	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	12,099	91	1,101	-	1,101	225	-	134	n/a
MNT124	S&C Stoneblowing (point end)	Point end	3,184	38	121	-	121	63	-	25	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	-	-	-	-	2,374	-	2,374	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	-	-	-	-	257	-	257	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	19	130,480	2,434	-	2,434	202,038	-	71,558	n/a
MNT073	Drainage (Yard)	Yard	26	54,581	1,428	-	1,428	182,138	-	127,557	n/a
MNT075	LX Management - Off Track (Each)	Each	240	2,187	525	-	525	2,349	-	162	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	132	11,114	1,466	-	1,466	7,398	-	(3,716)	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	9	527	5	-	5	5	-	(522)	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	4	1,054,008	3,743	-	3,743	631,656	-	(422,352)	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	99	6,079	600	-	600	159	-	(5,920)	n/a
N/A	Non volume track and off-track maintenance	£m				79,519	79,519				n/a
Total track and off-track maintenance					54,070	79,519	133,589		113,265		(20,324)
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				47,291	47,291			-	n/a
Total signalling maintenance						47,291	47,291		36,340		(10,951)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, London North West - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

		Actual						Network Rail Business Plan		Difference to Business Plan	
		In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost	
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	27,714	-	-	-	31,111	-	3,397	n/a
MNT221	Detailed Examinations	No.	-	1,940	-	-	-	1,797	-	(143)	n/a
MNT222	Underwater Examination	No.	-	245	-	-	-	356	-	111	n/a
MNT223	Ancillary Structure examination	No. detailed	-	272	-	-	-	139	-	(133)	n/a
MNT224	Hidden critical element examinations	No.	-	283	-	-	-	304	-	21	n/a
MNT225	Load carrying assessment	No. spans	-	1,699	-	-	-	3,452	-	1,753	n/a
MNT226a	Visual Examinations (Civils)	No.	-	13,130	-	-	-	13,042	-	(88)	n/a
N/A	Non volume civils maintenance	£m				25,197	25,197			-	n/a
Total civils maintenance						25,197	25,197		34,069		8,872
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	366	-	-	-	3,239	-	2,873	n/a
MNT227	5 yearly examinations	Each	-	97	-	-	-	155	-	58	n/a
N/A	Non volume buildings maintenance	£m				6,149	6,149			-	n/a
Total buildings maintenance						6,149	6,149		11,585		5,436
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	73	6,363	462	-	462	2,048	-	(4,315)	n/a
MNT209	Maintain DC Traction Power Supplies	Each	94	12,306	1,151	-	1,151	17,539	-	5,233	n/a
MNT211	Maintain OHL Components	Various	48	163,541	7,930	-	7,930	65,445	-	(98,096)	n/a
MNT212	Maintain Points Heating	Each	42	32,736	1,385	-	1,385	23,454	-	(9,282)	n/a
MNT213	Maintain Signalling Power Supplies	Number	105	8,842	927	-	927	10,072	-	1,230	n/a
N/A	Non volume electrical power and fixed plant maintenance	£m				15,872	15,872			-	n/a
Total electrical power and fixed plant maintenance					11,855	15,872	27,727		23,428		(4,299)
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				5,534	5,534			-	n/a
Total telecoms maintenance						5,534	5,534		3,916		(1,618)
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				48,366	48,366			-	n/a
Total other network operations maintenance						48,366	48,366		49,019		653

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, London North West - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				8,177	8,177			-	n/a
Total asset management services maintenance						8,177	8,177		8,239		62
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(1,212)	(1,212)			-	n/a
Total national delivery service maintenance						(1,212)	(1,212)		10,450		11,662
Property maintenance											
N/A	Non volume property maintenance	£m				528	528			-	n/a
Total property maintenance						528	528		1,068		540
Group maintenance											
N/A	Non volume group maintenance	£m				(5,687)	(5,687)			-	n/a
Total group maintenance						(5,687)	(5,687)		(3,856)		1,831
Total							295,659		287,523		(8,136)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, London North West – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

Statement 14: Renewals volumes, unit costs and expenditure, London North West

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	ckm	601	238	143	-	143	590	266	157	-	157	(11)	28	14	-	14
	Conventional		700	80	56	-	56	656	96	63	-	63	(44)	16	7	-	7
	High Output		626	123	77	-	77	608	130	79	-	79	(18)	7	2	-	2
	Refurbishment		286	35	10	-	10	375	40	15	-	15	89	5	5	-	5
	S&C	point enc	613	80	49	-	49	238	143	34	-	34	(375)	63	(15)	-	(15)
	Track Drainage		-	-	5	-	5	-	-	7	-	7	-	-	2	-	2
	Renewal	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Refurbishment	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	New Build	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Fencing		47	171	8	-	8	55	91	5	-	5	8	(80)	(3)	-	(3)
	Slab Track		-	-	-	2	2	2	-	-	1	1	2	-	-	(1)	(1)
	Off track		-	-	-	1	1	(1)	-	-	2	2	(1)	-	-	1	1
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					204	3	208			202	5	206			(2)	-	(2)
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	103	n/a	n/a	n/a	-	113	n/a	n/a	n/a	-	10
	Full conventional																
	resignalling	SEU	650	140	91	-	91	261	372	97	-	97	(389)	232	6	-	6
	Modular resignalling	SEU	-	-	-	-	-	77	39	3	-	3	77	39	3	-	3
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional																
	resignalling	SEU	321	28	9	-	9	412	17	7	-	7	90	(11)	(2)	-	(2)
	Targeted component																
	renewal	SEU	-	-	3	-	3	857	7	6	-	6	857	7	3	-	3
	Level crossings	No.	1,750	4	7	-	7	1,500	4	6	-	6	(250)	-	(1)	-	(1)
	Signalling other		-	-	-	39	39	-	-	-	11	11	-	-	-	(28)	(28)
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk																
	provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Operating strategy other																
	capex		n/a	n/a	n/a	22	22	n/a	n/a	n/a	17	17	n/a	n/a	n/a	(5)	(5)
	Minor works		n/a	n/a	n/a	15	15	n/a	n/a	n/a	(14)	(14)	n/a	n/a	n/a	(29)	(29)
	Centrally managed costs		n/a	n/a	n/a	2	2	n/a	n/a	n/a	8	8	n/a	n/a	n/a	6	6
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					110	39	149			119	11	130			9	(28)	(19)

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	58	n/a	n/a	n/a	-	77	n/a	n/a	n/a	-	19
	Underbridges	m2	2	15,964	31	-	31	1	22,540	51	-	51	(0)	6,576	20	-	20
	Overbridges (incl BG3)	m2	2	5,515	10	-	10	3	10,882	13	-	13	2	5,367	3	-	3
	Tunnels	m2	1	7,392	8	-	8	1	11,063	11	-	11	0	3,671	3	-	3
	Major structures	m2	-	-	-	9	9	-	-	-	2	2	-	-	-	(7)	(7)
	Other structures assets		n/a	n/a	n/a	-	8	n/a	n/a	n/a	-	13	n/a	n/a	n/a	-	5
	Culverts	m2	9	348	3	-	3	25	158	4	-	4	17	(190)	1	-	1
	Footbridges	m2	-	-	2	-	2	6	308	2	-	2	6	308	-	-	-
	Coastal & Estuary Defences	m	4	278	1	-	1	1	990	1	-	1	(3)	712	-	-	-
	Retaining Walls	m2	1	1,897	2	-	2	3	1,955	6	-	6	2	58	4	-	4
	Earthworks	5-chain	40	600	24	-	24	29	625	19	-	19	(11)	25	(5)	-	(5)
	EW Drainage		2	4,048	7	-	7	-	-	9	-	9	(2)	(4,048)	2	-	2
	Renewal	lm	-	1,083	-	-	-	-	-	-	-	-	-	(1,083)	-	-	-
	Refurbishment	lm	-	91	-	-	-	-	-	-	-	-	-	(91)	-	-	-
	Maintenance	lm	-	1,730	-	-	-	-	-	-	-	-	-	(1,730)	-	-	-
	New Build	lm	-	1,144	-	-	-	-	-	-	-	-	-	(1,144)	-	-	-
	Structures other		-	-	-	2	2	-	-	-	3	3	-	n/a	-	1	1
	Other		-	-	-	(1)	(1)	-	-	-	(15)	(15)	-	n/a	-	(14)	(14)
	Total				88	10	98			116	(10)	106			28	(20)	8

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	28	n/a	n/a	n/a	-	47	n/a	n/a	n/a	-	19
	Footbridges	m2	9	112	1	-	1	-	449	n/a	n/a	-	n/a	337	n/a	n/a	-
	Train Sheds	m2	-	-	3	-	3	-	1,219	n/a	n/a	-	n/a	1,219	n/a	n/a	-
	Canopies	m2	2	1,447	3	-	3	-	1,477	n/a	n/a	-	n/a	30	n/a	n/a	-
	Platforms	m2	1	11,498	10	-	10	-	25,402	n/a	n/a	-	n/a	13,904	n/a	n/a	-
	Buildings	m2	40	25	1	-	1	-	-	n/a	n/a	-	n/a	(25)	n/a	n/a	-
	Lifts & Escalators	No.	750	4	3	-	3	-	-	n/a	n/a	-	n/a	(4)	n/a	n/a	-
	Other		-	-	-	7	7	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	6	n/a	n/a	n/a	-	7	n/a	n/a	n/a	n/a	1
	Footbridges	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	1	-	1	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	5	202	1	-	1	-	-	n/a	n/a	-	n/a	(202)	n/a	n/a	-
	Buildings	m2	-	-	1	-	1	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	1	-	1	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	2	2	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		500	2	1	-	1	-	-	-	-	2	n/a	(2)	n/a	n/a	1
	Buildings	m2	-	2	-	-	-	-	-	n/a	n/a	-	n/a	(2)	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lineside Buildings	m2	13	160	2	-	2	-	-	n/a	n/a	5	n/a	(160)	n/a	n/a	3
	MDU Buildings	m2	3	1,067	3	-	3	-	-	n/a	n/a	5	n/a	(1,067)	n/a	n/a	2
	Depot Plant		-	-	-	-	-	-	-	n/a	n/a	2	n/a	n/a	n/a	n/a	2
	NDS Depots		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(10)	n/a	n/a	n/a	n/a	(10)
	Total				31	9	40			-	-	58			-	-	18

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	3	-	-	-	-	2	-	-	-	-	(1)
	Overhead Line Equipment (OLE) Re-wiring	wire runs	-	-	1	-	1	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	-	3	-	-	-	-	4	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	2	2	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	AC distribution		-	-	-	-	-	-	-	n/a	n/a	8	n/a	n/a	n/a	n/a	8
	HV Switchgear Renewal	No.	-	17	-	-	-	-	16	n/a	n/a	-	n/a	(1)	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	17	n/a	n/a	-	n/a	17	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	-	-	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	-	-	-	-	-	-	2	n/a	n/a	-	n/a	2	n/a	n/a	-
	LV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Cables	km	-	3	-	-	-	-	1	n/a	n/a	-	n/a	(2)	n/a	n/a	-
	Transformer Rectifiers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	12	-	-	n/a	n/a	23	n/a	n/a	n/a	n/a	11
	Signalling Power Cable Renewal	km	-	-	7	-	7	-	78	n/a	n/a	-	n/a	78	n/a	n/a	-
	Principle Supply Point Renewal	No.	500	2	1	-	1	-	4	n/a	n/a	-	n/a	2	n/a	n/a	-
	Other		-	-	-	4	4	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	-	2	-	2	-	62	n/a	n/a	-	n/a	62	n/a	n/a	(2)
	SCADA		-	-	-	-	-	-	-	n/a	n/a	8	n/a	n/a	n/a	n/a	8
	Energy efficiency		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	System capability / capacity		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other electrical power		-	-	-	1	1	-	-	n/a	n/a	3	n/a	n/a	n/a	n/a	2
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					11	7	18			-	-	47			-	-	29

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	2	-	-	-	-	5	n/a	n/a	n/a	n/a	3
	Customer Information Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Address CCTV	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Clocks	No.	13	151	2	-	2	-	-	n/a	n/a	-	n/a	(151)	n/a	n/a	-
	Operational Comms	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	PABX Concentrator	Lines	-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	Processor Controlled Concentrator	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: CCTV	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Emergency Telephone System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		n/a	n/a	n/a	1	1	n/a	n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	-
	Projects and other		n/a	n/a	n/a	2	2	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	(2)
	Non route capex		n/a	n/a	n/a	15	15	n/a	n/a	n/a	n/a	17	n/a	n/a	n/a	n/a	2
	Total				2	18	20			-	-	24			-	-	4

Statement 14: Renewals volumes, unit costs and expenditure, London North West - continued

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Wheeled plant and machinery	High output		n/a	n/a	n/a	4	4	n/a	n/a	n/a	19	19	n/a	n/a	n/a	15	15
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Infrastructure monitoring		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-
	Intervention		n/a	n/a	n/a	2	2	n/a	n/a	n/a	6	6	n/a	n/a	n/a	4	4
	Materials delivery		n/a	n/a	n/a	5	5	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(5)	(5)
	On track plant		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	6	6	n/a	n/a	n/a	6	6
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Road vehicles		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	16	16			-	39	39			-	23	23
IT	IM delivered renewals		n/a	n/a	n/a	33	33	n/a	n/a	n/a	29	29	n/a	n/a	n/a	(4)	(4)
	Traffic management		n/a	n/a	n/a	-	7	n/a	n/a	n/a	6	6	n/a	n/a	n/a	6	(1)
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	33	40			-	35	35			-	2	(5)
Property	MDUs/offices		n/a	n/a	n/a	5	5	n/a	n/a	n/a	3	3	n/a	n/a	n/a	(2)	(2)
	Commercial estate		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	5	5			-	3	3			-	(2)	(2)
Other renewals	Asset information strategy		n/a	n/a	n/a	1	1	n/a	n/a	n/a	14	14	n/a	n/a	n/a	13	13
	Intelligent infrastructure		n/a	n/a	n/a	3	3	n/a	n/a	n/a	4	4	n/a	n/a	n/a	1	1
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	9	9	n/a	n/a	n/a	8	8
	LOWs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Small plant		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Engineering Innovation																
	Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	CP4 Rollover		n/a	n/a	n/a	25	25	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(25)	(25)
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	6	6	n/a	n/a	n/a	6	6
Total					-	32	32			-	35	35			-	3	3
Total Renewals							626					683			-		57

Statement 14: Renewals volumes, unit costs and expenditure, London North West – continued

in £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a.
- (3) Track - Conventional - the reduced outturn has been mainly driven by access, resource and plant shortages, with notable shortfall in category 2 re-railing works.
- (4) Track - High Output - this year the High Output programme has delivered well but still lower than planned. This is due to changes in access availability, plant failures and adverse ground conditions.
- (5) Track - Refurbishment - Refurbishment workbank was down from plan. The reduction in activity is due to reprioritisation of the refurbishment workbank to safeguard the remainder of the workbank due to stretched resource and access availability and deliverability across the route Works Delivery teams. Planning in this area can be more fluid in nature which can result in deviations to plan on a year to date basis.
- (6) Track - Switches & Crossings – Volumes are below plan due to the fact that Network Rail have undertaken significant work bank re-profiling across the Control Period due to internal fluidity seen in planning such works and responding to work bank prioritisation needs. The majority of variances are driven by planned revisions to the work bank based upon resource and access availability. In addition, resource and access issues have limited S&C refurbishment volumes delivered in the current year.
- (7) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (8) Signalling - Full Conventional Resignalling - the workbank is well below plan. Wolverhampton Power Signalling Box Resignalling has now been delayed due to the project missing its' planned commissioning date following a delay in completing the necessary development and implementation works due to scheme complexity. This project is now scheduled for completion early in 2015/16 and therefore impact upon asset condition in the interim is limited. The remaining deviation relates to Crewe Steelworks, which is now scheduled to complete in the latter stages of 2015/16. In addition, part of the Crewe Steelworks volumes that have been recognised in 2014/15 have been reported as Partial conventional resignalling whereas the CP5 Business Plan assumed this would all be Full conventional resignalling activity. Harbury landslip also resulted in delays to the Watford re-signalling project as this had to be used as a diversionary route whilst the required remediation works were undertaken.
- (9) Signalling - Partial Conventional Resignalling – volumes delivered are higher than the CP5 Business Plan. The main influence is the Crewe Steelworks programme which the CP5 Business Plan assumed would all be delivered through Full Conventional Resignalling but some of this has been delivered through Partial Conventional Resignalling methods.

Statement 14: Renewals volumes, unit costs and expenditure, London North West – continued

in £m 2014-15 prices unless stated

- (10) Structures - Underbridges - workbank is below plan. This is largely due to a deferral of Holmes Chapel Viaduct to next year as a result of access issues and integrating planning.
- (11) Structures - Overbridges - workbank is below plan, which is mainly due to inclusion of a modelled targeted volume in the plan. The plan included around 5,000 units which had not been allocated to a specific job which did not materialise in the year. Additionally, scope changes associated, primarily, with Lytham Road Bridge have led to further reductions.
- (12) Structures - Tunnels - The workbanks is below plan. This is predominantly due the deferral of works at Cowburn tunnel into future years of the control period.
- (13) Structures - Footbridges – no Footbridge volumes were reported in the year. Work has been re-profiled to later in the control period.
- (14) Structures - Coastal & Estuarial Defences - Volumes are lower than Network Rail's published CP5 Business Plan due to increased asset knowledge removing Flimby South Sea Defence and Ravenglass Viaduct from the plan as renewals works were not required at this time in order to maintain the appropriate asset condition.
- (15) Earthwork drainage – no volumes were included in Network Rail's published CP5 Business Plan for this activity in London North West.
- (16) Buildings - Franchised Stations - within the workbank there has been significant movement across the majority of the portfolio this year with some positive outturn on Buildings. This is offset by negative variances in platforms due to re-phasing Salford Central to align with Northern Hub works (and so reduce passenger disruption and achieve possession management efficiencies) and also re-phasing renewals at Preston to 2016/17. Canopy volumes are down due to re-phasing works at Crewe, also to 2016/17. Lower footbridge volumes is indicative of quite substantive programme change across a number of routes in response to a mix of reprioritisation exercises and deliverability assessment.
- (17) Buildings – Managed stations – volumes delivered for Platforms was higher than the plan. No volumes were included in Network Rail's published CP5 Business Plan for this activity in London North West.
- (18) Lineside Buildings/ MDU buildings – no volumes were included in Network Rail's published CP5 Business Plan for this activity in London North West.
- (19) Electrification - Signalling Power Cables - Volumes are below Network Rail's published CP5 Business Plan due re-profiled works to year three of the control period to align with slippage of a signalling enhancement scheme. Combining work programmes should reduce passenger disruption and deliver possession management and Schedule 4 efficiencies .
- (20) Electrification - Points Heaters - Volumes are below Network Rail's published CP5 Business Plan. The Manchester area points heating programme has been put on hold awaiting designs from Electrification and Plant Design.
- (21) Telecoms – SISS - no volumes were included in Network Rail's published CP5 Business Plan for this activity in London North West for the current year. The variance represents acceleration of volumes from future years for various stations following negotiations with the franchise operator responsible for managing those stations.

Statement 1: Summary regulatory financial performance, Sussex

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	185	183	2	216
Fixed Income	16	16	-	73
Variable Income	97	93	4	66
Other Single Till Income	79	78	1	62
Opex memorandum account	2	-	2	-
Total Income	379	370	9	417
Operating expenditure				
Network operations	42	31	(11)	38
Support costs	25	32	7	41
Traction electricity, industry costs and rates	53	47	(6)	52
Network maintenance	67	60	(7)	58
Schedule 4	13	15	2	13
Schedule 8	20	-	(20)	29
Total operating expenditure	220	185	(35)	231
Capital expenditure				
Renewals	162	162	-	215
PR13 enhancement expenditure	99	79	(20)	142
Non PR13 enhancement expenditure	3	-	(3)	43
Total capital expenditure	264	241	(23)	400
Other expenditure				
Financing costs	79	92	13	84
Corporation tax (received)/paid	-	1	1	-
Rebates	-	-	-	7
Total other expenditure	79	93	14	91
Total expenditure	563	519	(44)	722

Statement 1: Summary regulatory financial performance, Sussex - continued

In £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Variable income in the year was higher than the determination due to higher electricity costs that Network Rail could pass onto operators. This is offset by higher Operating expenditure. These variances are set out in more detail in Statement 6a.
- (4) Income – Other single till income in the year is higher than the determination due to increased property sales partly offset by lower freight and stations income. These variances are set out in more detail in Statement 6a.
- (5) Income – Opex memorandum account – there is a minor amount reported this year. This is disclosed in more detail in Statement 10.
- (6) Operating expenditure - Network Operations costs are higher than the determination mainly as a result of higher signalling costs arising from a higher CP4 exit cost base than the regulator assumed as well as delays in implementing efficiency initiatives. These variances are set out in more detail in Statement 7a.
- (7) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher electricity costs which are largely recovered from operators through income. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Network Maintenance costs are higher than the determination and the previous year which is mostly a result investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. Also, Reactive maintenance expenditure was higher than the regulator assumed. These variances are set out in more detail in Statement 8a.
- (10) Operating expenditure - Schedule 4 costs are lower than the determination mostly due to deferral of renewals activities. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (11) Operating expenditure - Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets for the first year of the control period. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Capital expenditure - Renewals expenditure is in line with the determination and reflects efficient overspend offset by phasing of activity to future years. These variances are set out in more detail in Statement 9a.
- (13) Capital expenditure - PR13 Enhancements expenditure is in higher than the determination, which is due to re-profiling of programme delivery. These variances are set out in more detail in Statement 3.
- (14) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (15) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.
- (16) Other expenditure – Corporation tax - the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.

Statement 1: Summary regulatory financial performance, Sussex - continued

In £m 2014-15 prices unless stated

- (17) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

Statement 2a: RAB - regulatory financial position, Sussex

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,619	2,619	-
Indexation to 2013-14 prices	69	69	-
Opening RAB for the year (2013-14 prices)	2,688	2,688	-
Indexation for the year	53	53	-
Opening RAB (2014-15 prices)	2,741	2,741	-
Adjustments for the actual capital expenditure outturn in CP4	78	-	78
Renewals	148	162	(14)
PR13 enhancements	101	65	36
Non-PR13 enhancements	1	-	1
Total enhancements	102	65	37
Amortisation	(136)	(136)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2015	2,933	2,832	101

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	2,741
Adjustments for the actual capital expenditure outturn in CP4	78
Renewals	148
PR13 enhancements	101
Non-PR13 enhancements	1
Total enhancements	102
Amortisation	(136)
Adjustments for under-delivery of regulatory outputs	-
Closing RAB	2,933

Statement 2a: RAB - Regulatory financial position, Sussex - continued

In £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was a combination of re-profiling activity to future years, efficient overspends (the value of which cannot all be logged up to the RAB) offset by expenditure rolled over from CP4 (for which the regulator adjusted the renewals allowances). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was higher than the regulator assumed. This was efficient overspends compared to the funding available (the value of which cannot all be logged by to the RAB) offset by deferral of enhancement activity. The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position.

Statement 2b: RAB - reconciliation of expenditure,

in £m 2014-15 prices unless stated

Total as at 31/03/15

Renewals

Renewals per the PR13 determination **162**

Adjustments to the PR13 determination

Renewals / enhancement reallocation -

Capitalised financing on reallocations -

CP4 deferrals to CP5 54

Capitalised financing on CP4 deferrals 1

Other adjustments -

Capitalised financing on other adjustments -

Adjusted PR13 determination (renewals) **217**

Adjustments in accordance with the PR13 RAB roll forward policy

Adjustments for acceleration / (deferral) of expenditure within CP5 (110)

Capitalised financing on acceleration / (deferrals) of expenditure (2)

Adjustments for efficient overspend 52

Capitalised financing on efficient overspend 1

25% retention of efficient overspend (13)

Capitalised financing on efficient overspend 25% retention -

Adjustments for efficient underspend -

Capitalised financing on efficient underspend -

25% retention of efficient underspend -

Capitalised financing on efficient underspend 25% retention -

Adjustments for underspend that is not deemed efficient -

Capitalised financing relating to underspend that is not deemed efficient -

Adjustments for efficient overspend through spend to save framework 4

Capitalised financing on efficient overspend through spend to save framework -

20% retention of efficient overspend through spend to save framework (1)

Capitalised financing on efficient overspend through spend to save framework 20% retention -

Other adjustments -

Capitalised financing on other adjustments -

Total Renewals (added to the RAB - see Statement 2a) **148**

Adjustment for manifestly inefficient overspend -

Adjustment for capitalised financing -

Adjustment for retention of efficient overspend (including spend to save adjustment) 14

Adjustment for retention of efficient underspend -

Other adjustments -

Total actual renewals expenditure (see statement 9) **162**

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

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	65
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	7
Capitalised financing on CP4 deferrals	-
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	-
Capitalised financing on adjustments to DfT funding	-
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (enhancements)	71
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	29
Capitalised financing on acceleration / (deferrals) of expenditure	1
Adjustments for efficient overspend	-
Capitalised financing on efficient overspend	-
25% retention of efficient overspend	-
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-
Capitalised financing relating to projects with tailored protocols or fixed price	-
Adjustments for efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	101
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	2
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	-
Capitalised financing on non-PR13 enhancements expenditure	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	(1)
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	1
Total enhancements (added to the RAB - see statement 2a)	102
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	(1)
Adjustment for retention of efficient overspend (including spend to save adjustment)	-
Other adjustments (including discretionary investment)	1
Adjustment for retention of efficient underspend	-
Non-PR13 enhancement expenditure	
Third party funded schemes	15
Other adjustments	-
Total actual enhancement expenditure (see statement 3)	117

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

In £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted.
- (10) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (11) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition. For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

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

In £m 2014-15 prices unless stated

- (12) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition.

Statement 3: Analysis of enhancement capital expenditure, Sussex

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Funds			
East coast connectivity	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	2	2
Stations - Access for All (AfA)	1	9	8
Development	25	2	(23)
Level crossing safety	1	1	-
Passenger journey improvement	-	5	5
The strategic rail freight network	-	4	4
Total funds	27	23	(4)
Committed projects			
Thameslink	28	26	(2)
Total committed projects	28	26	(2)
Named schemes			
Airports & Ports:			
Redhill additional platform	1	2	1
Total airports & Ports	1	2	1
HLOS capacity metric schemes			
Uckfield line train lengthening	1	1	-
Sussex traction power supply upgrade	1	5	4
London Victoria station capacity improvements	1	1	-
Total HLOS capacity metric schemes	3	7	4
CP4 Project Rollovers			
Battersea Park Station Platform Lengthening	-	1	1
Gatwick Airport Remodelling and Passenger Capacity	4	5	1
East Croydon Passenger Capacity Scheme	1	1	-
Station security	-	1	1
Other CP4 Rollover	-	-	-
Total CP4 rollovers	5	8	3
Other projects			
Seven day railway projects	7	7	-
R&D allowance	-	-	-
Income generating property schemes	28	3	(25)
Other income generating investment framework schemes	-	3	3
Total other projects	35	13	(22)
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	99	79	(20)
B) Investments not included in PR13			
Government sponsored schemes			
Other government sponsored schemes	-	-	-
Total Government sponsored schemes	-	-	-
Network Rail spend to save schemes			
Other spend to save schemes	2	-	(2)
Total Network Rail spend to save schemes	2	-	(2)
Total Schemes promoted by third parties	-	-	-
Discretionary Investment	1	-	(1)
Total non PR13 enhancement expenditure	3	-	(3)
Total Network Rail funded enhancements (see Statement 1)	102	79	(23)
Third Party PAYG	15	-	(15)
Total enhancements (see statement 2b)	117	79	(38)

Statement 3: Analysis of enhancement capital expenditure, Sussex - continued

In £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £102m (as shown in Statement 1). This comprises the total enhancement figure in the table above £117m less the PAYG schemes funded by third parties (£15m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when investment activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (c) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. Costs this year are higher than the amount assumed in the regulator's determination for the entire control period. However, as this is due to a difference in assumptions and the total England & Wales programme expenditure is expected to be in line with the funding available none of this variance has been classified as financial underperformance (as reported in Statement 5a). Similarly, in other routes where expenditure is lower than the determination none of this has been recognised as financial outperformance.

Statement 3: Analysis of enhancement capital expenditure, Sussex - continued

In £m 2014-15 prices unless stated

- (d) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.
 - (e) The Strategic rail freight network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year was lower than the regulator assumed as work was re-profiled to later years.
- (6) PR13 funded - Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
- (a) Income generating property schemes – Network Rail invested more in its commercial property estate than the regulator assumed. This was largely due to additional one-off items such as the purchase (and further development) of a site in Hayward's Heath, Battersea station development and Victoria Place improvements.
 - (b) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (7) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
- (a) Network Rail Spend to save – acquisition of freight sites and paths. Most of the costs of these acquisitions were incurred in control period 4 and included in last year's Regulatory financial statements.
 - (b) Discretionary investment – this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).
 - (c) PAYGO –The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year. The amounts included this year largely relate to DfT funded work delivered as part of the Thameslink programme.

Statement 4: Net debt and financial ratios, Sussex

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	1,846	1,835	(11)
Income			
Grant income	(185)	(183)	2
Fixed charges	(16)	(16)	-
Variable charges	(97)	(93)	4
Other single till income	(79)	(78)	1
Total income	(377)	(370)	7
Expenditure			
Network operations	42	31	(11)
Support costs	25	32	7
Traction electricity, industry costs and rates	53	47	(6)
Network maintenance	67	60	(7)
Schedule 4	13	15	2
Schedule 8	20	-	(20)
Renewals	162	162	-
PR13 enhancement	99	65	(34)
Non-PR13 enhancement	3	-	(3)
Total expenditure	484	412	(72)
Financing			
Interest expenditure on nominal debt - FIM covered	28	29	1
Interest expenditure on index linked debt - FIM covered	14	14	-
Expenditure on the FIM	20	21	1
Interest expenditure on government borrowing	5	-	(5)
Interest on cash balances held by Network Rail	(1)	(1)	-
Total interest costs	66	63	(3)
Accretion on index linked debt - FIM covered	13	29	16
Total financing costs	79	92	13
Corporation tax	-	1	1
Other	24	32	8
Movement in net debt	210	167	(43)
Closing net debt	2,056	2,002	(54)

D) Financial indicators

	2014-15 Actual	2014-15 PR13
Adjusted interest cover ratio (AICR)	0.31	0.74
FFO/interest	2.34	2.87
Net debt/RAB (gearing)	70.1%	70.7%
FFO/debt	7.6%	9.1%
RCF/debt	4.4%	5.9%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

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

In £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Debt attributable to Sussex route has increased by over £200m during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is around £50m higher than the regulator assumed. This is mostly due to higher investment in the railway network, higher performance regime costs and higher than assumed opening net debt partly offset by lower than expected interest costs and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.

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

In £m nominal unless otherwise stated

- b. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- c. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- d. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Corporation tax – the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.

(14) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(15) 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 April 2014.

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

(16) Financial indicators – AICR – a ratio of less than 1 suggests that the route is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected Sussex route would not cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). The AICR is much lower than the regulator's expectation mainly due to adverse performance regime income and Network operations costs.

(17) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m.

in £m 2014-15 prices unless stated

[illegible]

Statement 5a: Total financial performance, Sussex - continued

in £m 2014-15 prices unless stated

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Variable income:						
Adjustments for external traction electricity	(34)	(30)	-	(34)	(30)	-
Total variance not included in total financial performance:	(34)	(30)	-	(34)	(30)	-

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Support costs:						
Release of CP4 long distance financial penalty provision	1	-	-	1	-	-
Total variance not included in total financial performance:	1	-	-	1	-	-

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Traction electricity:						
Adjustments for external traction electricity	34	30	-	34	30	-
Total variance not included in total financial performance:	34	30	-	34	30	-

Statement 5a: Total financial performance, Sussex - continued

In £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Other single till income – the outperformance recognised in Other single till income is due to higher property sales partly offset by lower freight and station income.
- (3) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (4) Network operations – costs are higher than the determination mainly due to differences in the CP4 exit rate. The determination assumed that Network Rail would exit the control period with a lower cost base. However, this was not the case as efficiencies that were expected to occur in the final years of CP4 did not materialise meaning that Network Rail started the control period with a higher cost base than the regulatory assumption. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. In addition, there have been delays in implementing efficiency initiatives in CP5, notably the completion of the East Sussex re-signalling scheme. Delivery of this scheme was over a year late meaning that the costs of running ten additional locations were borne in 2014/15.

Statement 5a: Total financial performance, Sussex - continued

In £m 2014-15 prices unless stated

- (5) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (6) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (7) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on variances in reactive maintenance spend in the opening year of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved. After adjusting for this costs are still higher than the determination. The main contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs.
- (8) Schedule 4 costs – costs were lower than the regulator assumed. However, this was mostly due to deferral of activity. An adjustment has been made in the Variances in volume of work to reflect this. Consequently, a minor amount has been recognised as financial underperformance.
- (9) Schedule 8 costs – the additional cost compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. In addition, infrastructure failures and network congestion have added to the level of financial underperformance in the year.
- (10) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (11) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (12) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (13) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.
- (14) Corporation tax – whilst corporation tax variances are within the scope of FPM, it is uncertain that gains made in the current year will continue throughout the control period. Given this uncertainty, no FPM has been recognised at this time and so the saving compared to the PR13 baseline has been treated as neutral for the current year. This will be reviewed and updated in future years.

Statement 5a: Total financial performance, Sussex – continued

In £m 2014-15 prices unless stated

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Sussex were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Sussex also faces a reduction for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Sussex were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Sussex also faces a reduction for this missed output.

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

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	5	17	(12)	(3)		(3)	-	-
Signalling	16	36	(20)	(5)		(3)	(2)	-
Civils	(1)	3	(4)	(1)		(1)	-	-
Buildings	(7)	1	(8)	(2)		-	(2)	-
Electrical power and fixed plant	20	24	(4)	(1)		-	(1)	-
Telecoms	-	-	-	-		-	-	-
Wheeled plant and machinery	5	5	-	-		-	-	-
IT	(4)	(4)	-	-		-	-	-
Property	3	3	-	-		-	-	-
Other renewals	(37)	(33)	(4)	(1)		(1)	-	-
Total	-	52	(52)	(13)		(8)	(5)	-

Where:

C = A - B

D = C x 25%

And:

D = E + F + G

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

In £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines (April 2014)) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable cost inefficiency in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Costs in the year have been higher than planned as higher than expected contractor costs (partly arising from reducing the number of contractors used) and variations on individual jobs have increased rates, although this has been partly offset by favourable settlement of claims relating to CP4 projects. Cost and budgetary pressures has also resulted in a reduction in volumes planned over the control period. However, there is not a proportionate link between reductions in volumes and reductions in cost and so falling volumes leads to an increase in average costs of each remaining job.
- (3) Signalling – FPM has been adversely affected by projects rolled over from CP4 for which the ORR has not provided any funding. The delay in completing these projects has also had a drag on realising some of the Network Operations cost efficiencies that were assumed in the regulator's determination. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned. The route management team also made a decision to invest in some additional renewals to improve asset performance and reduce the number of signalling failures. In addition, targeted efficiencies included in the plan and regulatory targets relating to design to reduce the number of required SEUs on the major programmes have not materialised.
- (4) Civils – cost overruns across a number of projects have contributed to the negative Civils FPM this year. The route planned for savings through new framework contracts which have not materialised. In addition, extra work has been delivered for schemes rolled over from CP4 for which there was no funding in the regulatory settlement. Extra costs on Hayward Heath Tunnel Drainage project due to unforeseen project complexity and access issues.
- (5) Buildings – financial underperformance reported largely due to CP4 rollover projects for which no ORR funding was allowed. In addition, issues towards the end of CP4 (after the determination allowances had been set) resulted in higher costs and challenges on East Croydon platform and canopy schemes.
- (6) Electrical power and fixed plant – financial underperformance due to extra scope with projects rolled over from CP4 for which ORR did not provide any additional funding and additional investment in energy efficiency programme, which is centrally-managed. Network Rail is planning to invest more than the determination allowances in this area.
- (7) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of some of these projects is expected to exceed the amounts made available by the regulator. Underperformance recognised on the year relates to SCADA and FTN. As not all of these CP4 rollover projects have finished not all of the expected FPM has been recognised in 2014/15. As these projects complete in the next couple of years additional negative FPM will crystallise later in the control period.

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

in £m 2014-15 prices unless stated

	Variance to adjusted PR13	Variance due to ECAM adjustment	2014-15 Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
Redhill additional platform	1	1	2	-	-	-
Other Enhancements	(24)	-	(24)	-	-	-
Total	(23)	1	(22)	-	-	-

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

In £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) No FPM has been recognised for enhancement schemes in 2014/15.

Statement 5d: REBS Reconciliation, Sussex

in £m 2014-15 prices unless stated

	A	B	Cumulative to 2014-15		E	F	G
			C	D			
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	9	9	-	-	-	-	-
Capacity charge	42	42	-	-	-	-	-
Electricity asset utilisation charge	1	1	-	-	-	-	-
Property income [2]	41	36	5	-	-	-	5
Expenditure							
Network operations	42	29	(13)	-	-	-	(13)
Support costs	25	31	6	-	1	-	5
RSSB and BT Police	6	6	-	-	-	-	-
Network maintenance	67	62	(5)	(2)	-	-	(3)
Schedule 4 costs	13	11	(2)	(1)	-	-	(1)
Schedule 8 costs	20	-	(20)	-	-	-	(20)
Renewals	162	156	(6)	46	-	(39)	(13)
Total REBS performance	-	-	(35)	43	1	(39)	(40)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(8)
Under-delivery of train performance requirements (CaSL)							(3)
Total adjustment for under delivery of outputs and reduced sustainability							(11)
Cumulative performance to end of 2014-15							(51)
Net REBS performance for 2014-15							(51)

Where: $C = B - A$

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

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

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

In £m 2014-15 prices unless stated

Notes:

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

Statement 6a: Analysis of income, Sussex

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	185	183	2	216
Franchised track access income				
Fixed charges	16	16	-	73
Variable charges	-	-	-	-
Variable usage charge	9	9	-	9
Traction electricity charges	34	30	4	32
Electrification asset usage charge	1	1	-	1
Capacity charge	42	42	-	16
Station usage charge	-	-	-	-
Schedule 4 net income	11	11	-	8
Schedule 8 net income	-	-	-	-
Total Variable charges income	97	93	4	66
Total franchised track access income	113	109	4	139
Total franchised track access and grant income	298	292	6	355
Other single till income				
Property income	42	39	3	29
Freight income	-	1	(1)	-
Open access income	-	-	-	-
Stations income	27	28	(1)	24
Facility and financing charges	2	3	(1)	2
Depots Income	7	7	-	7
Other income	1	-	1	-
Total other single till income	79	78	1	62
Total income	377	370	7	417

Statement 6a: Analysis of income, Sussex - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is higher than the determination due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. However this is balanced by an overspend on electricity costs (as shown in Statement 7a). Traction electricity charges are slightly higher than the previous year.
- (4) Capacity charge - this is in line with the determination. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore the in year figure cannot be compared to 2013/14 in a meaningful way.
- (5) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is significantly higher than the 2013/14 value. This is due to changes in the Schedule 4 compensation rates in control period 5 compared to control period 4, which also results in changes in the access charge supplement payable by operators.

Statement 6a: Analysis of income, Sussex - continued

In £m 2014-15 prices unless stated

- (6) Property income – this is higher than the determination due to higher property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Property income is higher than the previous year largely due to these increased sales.

Statement 6b: Analysis of other single till income, Sussex (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property Income				
Property rental	33	38	(5)	31
Property sales	9	5	4	(2)
Adjustment for commercial opex	-	(4)	4	-
Total property income	42	39	3	29
Freight income				
Freight variable usage charge	-	-	-	-
Freight traction electricity charges	-	-	-	-
Freight electrification asset usage charge	-	-	-	-
Freight capacity charge	-	1	(1)	-
Freight only line charge	-	-	-	-
Freight specific charge	-	-	-	-
Freight other income	-	-	-	-
Freight coal spillage charge	-	-	-	-
Total freight income	-	1	(1)	-
Open access income				
Variable usage charge income	-	-	-	-
Open access capacity charge	-	-	-	-
Open access traction electricity charges	-	-	-	-
Fixed contractual contribution	-	-	-	-
Open access other income	-	-	-	-
Total open access income	-	-	-	-
Stations income				
Managed stations income				
Long term charge	5	5	-	4
Qualifying expenditure	5	4	1	4
Total managed stations income	10	9	1	8
Franchised stations income				
Long term charge	13	15	(2)	11
Stations lease income	4	4	-	5
Total franchised stations income	17	19	(2)	16
Total stations income	27	28	(1)	24
Facility and financing charges				
Facility charges	2	3	(1)	2
Crossrail finance charge	-	-	-	-
Welsh Valleys finance charge	-	-	-	-
Total facility and financing charges	2	3	(1)	2
Depots income	7	7	-	7
Other	1	-	1	-
Total other single till income	79	78	1	62

Statement 6b: Analysis of other single till income, Sussex (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	27	16	(11)	21
Signalling shift managers	2	1	(1)	2
Local operations managers	-	1	1	-
Controllers	2	2	-	-
Electrical control room operators	2	1	(1)	-
Total signaller expenditure	33	21	(12)	23
Non-signaller expenditure				
Mobile operations managers	2	2	-	5
Managed stations	5	3	(2)	3
Performance	1	1	-	-
Customer relationship executives	(1)	1	2	2
Route enhancement managers	-	-	-	-
Weather	-	1	1	-
Other	1	1	-	1
Operations delivery	1	-	(1)	1
HQ - Operations services	-	-	-	-
HQ - Performance and planning	-	-	-	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	2	2	-	3
Other operating income	(2)	(1)	1	-
Total non-signaller expenditure	9	10	1	15
Total network operations expenditure	42	31	(11)	38
Support costs				
Core support costs				
Human resources	2	3	1	4
Information management	3	3	-	4
Government and corporate affairs	1	1	-	1
Group strategy	1	1	-	1
Finance	1	1	-	1
Business services	1	1	-	1
Accommodation	8	10	2	5
Utilities	3	3	-	3
Insurance	3	3	-	3
Legal and inquiry	-	-	-	-
Safety and sustainable development	1	1	-	1
Strategic sourcing	-	1	1	1
Business change	-	-	-	-
Other corporate functions	1	-	(1)	2
Core support costs	25	28	3	27
Other support costs				
Asset management services	2	1	(1)	3
Network Rail telecoms	3	3	-	3
National delivery service	-	-	-	-
Infrastructure Projects	(1)	-	1	(4)
Commercial property	-	-	-	2
Group costs	(4)	-	4	10
Total other support costs	-	4	4	14
Total support costs	25	32	7	41
Traction electricity, industry costs and rates				
Traction electricity	36	31	(5)	34
Business rates	10	10	-	11
British transport police costs	5	5	-	5
RSSB costs	1	-	(1)	1
ORR licence fee and railway safety levy	1	1	-	1
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
Total traction electricity, industry costs and rates	53	47	(6)	52
Total network operations expenditure, support costs, traction electricity, industry costs and rates	120	110	(10)	131

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

In £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the regulator's assumptions. The PR13 assumed that Network Rail would exit CP4 with a lower Network Operations cost base than they did as efficiencies that were expected to occur in the final years of CP4 did not materialise. From this starting position, achieving the determination target for 2014/15 was always going to be unlikely. Also, there have been delays implementing efficiency strategies in the current year. Network Operations costs largely consist of signaller staff costs. Reducing staff costs can only be achieved through headcount reductions which are only possible if the required underlying infrastructure is in place (such as regional signalling centres to replace numerous individual signalling boxes), there is no impact upon safety and performance from rationalisation and there is support from the existing workforce and trade unions. Network Rail's plans suggests that whilst there will be improvement in Network Operations costs over the remainder of the control period, costs will remain higher than the determination for each year of the control period due to the difference in the CP4 exit position. Signaller costs are also higher than the determination due to the impact of two years' worth of pay awards granted to signaller staff at higher than the rate of inflation meaning that ceteris paribus, costs would exceed the regulatory allowance for 2014/15. In addition, there have been delays in implementing efficiency initiatives in CP5, notably the completion of the East Sussex re-signalling scheme. Delivery of this scheme was over a year late meaning that the costs of running ten additional locations were borne in 2014/15. Costs are higher than the previous year, which includes pay awards being higher than inflation.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (5) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.

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

In £m 2014-15 prices unless stated

- (6) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher electricity charges and British Transport Police costs.
- (7) Traction electricity – costs are in line with the prior year but significantly higher than the determination. Network Rail has limited ability to influence traction electricity costs which are driven by the prevailing market rates of these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in the financial year are higher than the determination due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also higher than the Regulator assumed.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Sussex (unaudited)

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	19	29
Operations and customer services non-signalling	-	-
MOMS	2	3
Control	3	3
Planning & Performance Staff Costs	2	1
Managed Stations Staff Costs	1	2
Operations Management Staff Costs	2	1
Other	9	4
Total operations & customer services costs	38	43
Total Network Operations	38	43
Support		
Human resources		
Functional support	2	1
Training (inc Westwood)	2	1
Graduates	-	-
Apprenticeships	-	-
Other	-	-
Total human resources	4	2
Information management		
Support	1	-
Projects	-	-
Licences	-	-
Business operations	3	3
Other	-	-
Total information management	4	3
Finance	1	1
Business Change	-	-
Contracts & procurement	1	-
Strategic Sourcing (National Supply Chain)	-	-
Planning & development	1	1
Safety & compliance	1	-
Other corporate services	3	-
Commercial property	7	8
Infrastructure Projects	(4)	(1)
Route Services	1	1
Asset management & Engineering/Asset heads	10	-
National delivery service	-	-
Utilities	-	3
Network Rail telecoms	-	3
Digital Railway	-	1
Safety Technical & Engineering	-	2
Government & Corporate Affairs	-	1
Business Services	-	1
Route Asset Management	-	(1)
Legal and inquiry	-	-
Group/central		
Pensions	-	-
Insurance	3	3
Redundancy/reorganisation costs	4	1
Staff incentives/Bonus Reduction	-	(2)
Accommodation & Support Recharges	-	(1)
ORR financial penalty	5	(1)
Other	-	-
Total group/central costs	12	-
Total support	41	25
Total network operations and support costs	79	68

Statement 7b: Analysis of network operations expenditure and support costs by activity, Sussex (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	28	25	(3)	25
Signalling	10	8	(2)	9
Civils	4	5	1	8
Buildings	8	4	(4)	5
Electrical power and fixed plant	6	5	(1)	4
Telecoms	-	2	2	1
Other network operations	9	6	(3)	5
Asset management services	2	2	-	1
National Delivery Service	-	3	3	1
Property	1	1	-	-
Group	(1)	(1)	-	(1)
Total maintenance expenditure	67	60	(7)	58

Statement 8a: Summary analysis of network maintenance expenditure, Sussex - continued

In £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are higher than the determination and the prior year. The main contributors to this were higher Reactive maintenance costs and Network Rail's decision to reduce the level of incentive payouts to senior management and instead, re-invest this money into programmes to improve the safety and performance of the network. A significant amount was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading).
- (4) Civils – costs were lower than the determination mainly as a result of a lower level of Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are lower than the prior year mostly due to a lower level of Reactive Maintenance required this year compared to 2013/14.
- (5) Buildings – costs were higher than the determination mainly as a result of a higher level of Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Costs are higher than the prior year mostly due to a lower level of Reactive Maintenance required this year compared to 2013/14.

Statement 8a: Summary analysis of network maintenance expenditure, Sussex - continued

In £m 2014-15 prices unless stated

- (6) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category and accounts for the spend being higher than the regulator's assumption in 2014/15. Costs are noticeably higher than 2013/14 which is a combination of the investment in the programmes noted above and a significant increase in the asset management organisation within the routes. As part of the move towards a devolved, more accountable railway the capabilities and responsibilities of the local asset management teams have increased significantly since 2013/14, as planned in Network Rail's plans for CP5, and reflected in the expenditure allowances set by the regulator.
- (7) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The small credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided.

Statement 9a: Summary analysis of renewals expenditure Sussex

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	28	33	5	36
Signalling	31	47	16	58
Civils	26	25	(1)	39
Buildings	22	15	(7)	18
Electrical power and fixed plant	13	33	20	15
Telecoms	4	4	-	16
Wheeled plant and machinery	4	9	5	3
Information Technology	10	6	(4)	7
Property	-	3	3	1
Other renewals	24	(13)	(37)	22
Total renewals expenditure	162	162	-	215

Statement 9a: Summary analysis of renewals expenditure, Sussex - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in for the year is in line with the determination. However this is made up of a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – costs are lower than mostly due to deferral of activity partly offset by higher underlying costs. Network Rail's planned expenditure this year expected an overspend of nearly £10m on a like-for-like basis. This higher cost was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual costs were higher than Network Rail planned arising from contractor efficiencies not materialising and lower than expected savings from high output plant delivered renewals. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were more than offset by deferral of activity to future years, arising mainly from access and resource shortages. Expenditure was lower than the previous year. In CP4 a great deal of track activity was delivered towards the end of the five-year period.
- (3) Signalling – overall, expenditure was lower than the determination expected. However, this was largely due to deferral of activity, which was partly offset by higher than expected costs on a like for like basis. Targeted volume efficiencies arising from design improvements on major schemes did not materialise as planned. Also, there were extra costs incurred from completing some control period 4 projects for which the regulator has not provided any funding. Centrally managed costs were lower than the regulator assumed as more costs were charged directly to projects. This improves the quality of information about the cost of programmes and allows better understanding of project costs thus improving decision making. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Deferral of activity was mostly due to Victoria area resignalling arising from protracted contractual negotiations. Expenditure is much lower than the previous year due to the difference in the workbanks in the current control period compared to CP4.
- (4) Civils – expenditure in the year is in line with the regulatory assumptions. Expenditure is noticeably lower than the previous year. In CP4 Government provided some additional funds for accelerated civils expenditure as part of a fiscal stimulus package for the economy. In addition, the extreme weather in 2013/14 necessitated a great deal of emergency works to be carried out.

Statement 9a: Summary analysis of renewals expenditure, Sussex - continued

In £m 2014-15 prices unless stated

- (5) Buildings – expenditure in the year was higher than the determination mainly due to efficient overspend arising from additional projects which were not included in the determination funding. Also, there has been additional cost on the East Croydon platform and canopy schemes arising from issues emerging towards the end of the previous control period. Building financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (April 2014) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Renewals costs are higher than the previous year largely due to the negative financial outperformance.
- (6) Electrical power and fixed plant – expenditure in the year was noticeable lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant, DC Distribution & SCADA as Network Rail seeks to find optimal delivery strategies for these programmes. The SCADA activity planned for CP4 did not materialise and so ORR has provided a rollover of funding for this programme (the costs are included in the CP4 rollover category) but delays in design have meant that the CP4 element of the funding has not yet been exhausted, much less the PR13 allowances. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Expenditure is in line with the prior year.
- (7) Telecoms – expenditure in the year was in line with the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. The largest contributor to the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements).
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5). Expenditure is in line with the previous year.
- (9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.
- (10) Other renewals
- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, although there has been spend on ORBIS this year, as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.

Statement 9a: Summary analysis of renewals expenditure, Sussex - continued

In £m 2014-15 prices unless stated

- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was higher than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- d. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN, ORBIS (as noted above) and electrification programmes. Expenditure in some of these areas (FTN and SCADA) has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

Statement 9b: Detailed analysis of renewals expenditure, Sussex (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	16	13	(3)
High output renewal	-	2	2
Plain line refurbishment	3	1	(2)
S&C renewal	6	10	4
S&C refurbishment	1	2	1
Track non-volume	1	2	1
Off track	1	3	2
Total track	28	33	5
Signalling			
Full conventional resignalling	20	28	8
Modular resignalling	-	-	-
ERTMS resignalling	-	-	-
Partial conventional resignalling	-	5	5
Targeted component renewal	-	2	2
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	-	-	-
Operating strategy other capital expenditure	1	-	(1)
Level crossings	-	1	1
Minor works	10	9	(1)
Centrally managed costs	-	2	2
Total signalling	31	47	16
Civils			
Underbridges	5	9	4
Overbridges	9	7	(2)
Bridgeguard 3	1	-	(1)
Major structures	5	-	(5)
Tunnels	1	1	-
Other assets	1	1	-
Structures other	1	2	1
Earthworks	3	5	2
Other	-	-	-
Total civils	26	25	(1)
Buildings			
Managed stations	2	4	2
Franchised stations	17	9	(8)
Light maint depots	1	1	-
Depot plant	-	-	-
Lineside buildings	1	-	(1)
MDU buildings	1	1	-
NDS depots	-	-	-
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	22	15	(7)

Statement 9b: Detailed analysis of renewals expenditure, Sussex (unaudited) - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	-	-	-
Overhead Line	-	-	-
DC distribution	7	15	8
Conductor rail	4	4	-
SCADA	-	3	3
Energy efficiency	2	1	(1)
System capability / capacity	-	-	-
Other electrical power	-	1	1
Fixed plant and rail heating	-	9	9
Total electrical power and plant	13	33	20
Telecoms			
Operational communications	-	-	-
Network	-	-	-
SISS	-	2	2
Projects and other	-	-	-
Non-route capital expenditure	4	2	(2)
Total telecoms	4	4	-
Wheeled plant and machinery			
High output	1	5	4
Incident response	-	-	-
Infrastructure monitoring	-	1	1
Intervention	-	1	1
Materials delivery	2	-	(2)
On track plant	-	-	-
Seasonal	-	2	2
Locomotives	-	-	-
Fleet support plant	-	-	-
Road vehicles	1	-	(1)
S&C delivery	-	-	-
Total wheeled plant and machinery	4	9	5
Information Technology			
IM delivered renewals	9	5	(4)
Traffic management	1	1	-
Total information technology	10	6	(4)
Property			
MDUs/offices	-	2	2
Commercial estate	-	1	1
Corporate services	-	-	-
Total property	-	3	3
Other renewals			
Asset information strategy	1	4	3
Intelligent infrastructure	1	1	-
Faster isolations	7	2	(5)
LOWS	-	-	-
Small plant	-	1	1
Research and development	-	-	-
Phasing overlay	-	(21)	(21)
Engineering innovation fund	-	-	-
CP4 rollover	15	-	(15)
Other	-	-	-
West Coast	-	-	-
Total other renewals	24	(13)	(37)
Total renewals	162	162	-

Statement 9b: Detailed analysis of renewals expenditure, Sussex (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Sussex

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	13	15	2	13
Access charge supplement Income	(11)	(11)	-	(8)
Net (income)/cost	2	4	2	5
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	20	-	(20)	29
Access charge supplement Income	-	-	-	-
Net (income)/cost	20	-	(20)	29

B) Opex memorandum account

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

Statement 10: Other information, Sussex - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6a). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are lower than the determination due to deferrals of renewals activity to later in the control period. When Network Rail measures its financial performance it does not take into account savings or additional expenditure generated by renewal activity re-profiling (refer to Statement 5). After adjusting for the impact of deferrals, costs are slightly higher than the determination in the current year. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the in-year cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2014/15. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2014/15 unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the year, with the majority of delay minutes being associated with infrastructure failures. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the in-year cost cannot be compared to the 2013/14 number in a meaningful way.
- (3) The opex memorandum currently shows a minor net income (mostly relating the Volume incentive as shown in Statement 12). This means that Network Rail's income in the PR18 will be adjusted to reflect this subject to the regulator's overall funding decisions for CP6.

Statement 12: Volume incentives, Sussex

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year	2013-14 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	1	-	21	21	0.2%	1.46	pence per passenger train mile
Passenger farebox (millions)	3	1	764	726	2.0%	2.5%	% of additional farebox revenue
Freight train miles (millions)	-	-	-	-	1.0%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	-	-	101	106	1.4%	2.50	pence per freight 1,000 gross tonne mile
Total volume incentive	4	1					

The cumulative volume incentive is determined by the formula: $VI_t = (A_t - (B_{t-1} \times (1 + C_t))) \times D \times 5$

Where:

A_t = Actual in year quantity

B = 2014-15 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Sussex - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £1m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Sussex

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	4,256	301	1,281	-	1,281	267	-	(34)	n/a
MNT005	Plain Line Stoneblowing (km)	km	3,201	184	589	-	589	160	-	(24)	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	139	1,379	192	-	192	180	-	(1,199)	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	136	957	130	-	130	606	-	(351)	n/a
MNT007	S&C Tamping (point end)	Point end	2,133	241	514	-	514	282	-	41	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	148	1,712	253	-	253	759	-	(953)	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	167	9,944	1,656	-	1,656	5,295	-	(4,649)	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	9,136	22	201	-	201	92	-	70	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	3	183,593	555	-	555	85,000	-	(98,593)	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	12	29,655	365	-	365	52,000	-	22,345	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	16	107,595	1,670	-	1,670	85,100	-	(22,495)	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	12	2,977	37	-	37	2,000	-	(977)	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	12,813	48	615	-	615	38	-	(10)	n/a
MNT122	S&C Maintenance (point end)	Point end	51	10,926	562	-	562	2,871	-	(8,055)	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	11,802	106	1,251	-	1,251	40	-	(66)	n/a
MNT124	S&C Stoneblowing (point end)	Point end	2,143	14	30	-	30	50	-	36	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	310	-	-	-	266	-	(44)	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	136	-	-	-	168	-	32	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	22	25,367	562	-	562	33,091	-	7,724	n/a
MNT073	Drainage (Yard)	Yard	14	32,708	471	-	471	20,000	-	(12,708)	n/a
MNT075	LX Management - Off Track (Each)	Each	186	1,174	218	-	218	749	-	(425)	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	63	426	27	-	27	700	-	274	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	-	119	-	-	-	700	-	581	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	3	171,687	553	-	553	220,000	-	48,313	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	-	-	69	-	69	70	-	70	n/a
N/A	Non volume track and off-track maintenance	£m				16,376	16,376				n/a
Total track and off-track maintenance					11,801	16,376	28,177		24,678		(3,499)
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				9,920	9,920			-	n/a
Total signalling maintenance						9,920	9,920		8,408		(1,512)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Sussex - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	5,824	-	-	-	6,088	-	264	n/a
MNT221	Detailed Examinations	No.	-	380	-	-	-	375	-	(5)	n/a
MNT222	Underwater Examination	No.	-	24	-	-	-	25	-	1	n/a
MNT223	Ancillary Structure examination	No. detailed	-	4	-	-	-	14	-	10	n/a
MNT224	Hidden critical element examinations	No.	-	31	-	-	-	34	-	3	n/a
MNT225	Load carrying assessment	No. spans	-	153	-	-	-	365	-	212	n/a
MNT226a	Visual Examinations (Civils)	No.	-	2,523	-	-	-	1,710	-	(813)	n/a
N/A	Non volume civils maintenance	£m				4,802	4,802			-	n/a
Total civils maintenance						4,802	4,802		5,340		538
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	868	-	-	-	887	-	19	n/a
MNT227	5 yearly examinations	Each	-	40	-	-	-	37	-	(3)	n/a
N/A	Non volume buildings maintenance	£m				8,034	8,034			-	n/a
Total buildings maintenance						8,034	8,034		4,454		(3,580)
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	56	10,100	567	-	567	15,222	-	5,122	n/a
MNT209	Maintain DC Traction Power Supplies	Each	136	6,116	832	-	832	4,064	-	(2,052)	n/a
MNT211	Maintain OHL Components	Various	214	28	6	-	6	-	-	(28)	n/a
MNT212	Maintain Points Heating	Each	107	4,832	518	-	518	9,370	-	4,538	n/a
MNT213	Maintain Signalling Power Supplies	Number	260	596	155	-	155	1,618	-	1,022	n/a
N/A	Non volume electrical power and fixed plant maintenance	£m				3,552	3,552			-	n/a
Total electrical power and fixed plant maintenance						2,078	3,552	5,630	4,613		(1,017)
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				1	1			-	n/a
Total telecoms maintenance						1	1		1,955		1,954
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				8,825	8,825			-	n/a
Total other network operations maintenance						8,825	8,825		5,968		(2,857)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Sussex - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
		Unit of Measure (unit)	In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description		£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				2,062	2,062			-	n/a
Total asset management services maintenance						2,062	2,062		2,305		243
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(338)	(338)			-	n/a
Total national delivery service maintenance						(338)	(338)		2,924		3,262
Property maintenance											
N/A	Non volume property maintenance	£m				701	701			-	n/a
Total property maintenance						701	701		686		(15)
Group maintenance											
N/A	Non volume group maintenance	£m				(811)	(811)			-	n/a
Total group maintenance						(811)	(811)		(1,144)		(333)
Total							67,003		60,187		(6,816)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Sussex - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	ckm	792	24	19	-	19	468	47	22	-	22	(324)	23	3	-	3
	Conventional		1,067	15	16	-	16	621	29	18	-	18	(446)	14	2	-	2
	High Output		-	-	-	-	-	500	6	3	-	3	500	6	3	-	3
	Refurbishment		333	9	3	-	3	83	12	1	-	1	(250)	3	(2)	-	(2)
	S&C	point enc	132	53	7	-	7	232	56	13	-	13	100	3	6	-	6
	Track Drainage		-	-	-	-	-	-	-	1	-	1	-	-	1	-	1
	Renewal	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Refurbishment	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	New Build	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Fencing		200	5	1	-	1	50	20	1	-	1	(150)	15	-	-	-
	Slab Track		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Off track		-	-	-	1	1	(4)	-	-	2	2	(4)	-	-	1	1
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					26	1	28			37	2	39			10	1	11
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	20	n/a	n/a	n/a	-	34	n/a	n/a	n/a	-	14
	Full conventional resignalling	SEU	286	70	20	-	20	123	228	28	-	28	(163)	158	8	-	8
	Modular resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	1	-	-	-	-	-	5	-	5	-	(1)	5	-	5
	Targeted component renewal	SEU	-	-	-	-	-	1,000	1	1	-	1	1,000	1	1	-	1
	Level crossings	No.	-	9	-	-	-	2,000	1	2	-	2	2,000	(8)	2	-	2
	Signalling other		-	-	-	11	11	-	-	-	7	7	-	-	-	(4)	(4)
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Operating strategy other capex		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)
	Minor works		n/a	n/a	n/a	10	10	n/a	n/a	n/a	5	5	n/a	n/a	n/a	(5)	(5)
	Centrally managed costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total					20	11	31			36	7	43			16	(4)	12

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	21	n/a	n/a	n/a	-	24	n/a	n/a	n/a	-	3
	Underbridges	m2	11	441	5	-	5	1	528	10	-	10	(10)	87	5	-	5
	Overbridges (incl BG3)	m2	10	1,000	10	-	10	3	2,074	13	-	13	(7)	1,074	3	-	3
	Tunnels	m2	-	-	1	-	1	1	260	1	-	1	1	260	-	-	-
	Major structures	m2	-	-	-	5	5	-	-	-	-	-	-	-	-	(5)	(5)
	Other structures assets		n/a	n/a	n/a	-	1	n/a	n/a	n/a	-	1	n/a	n/a	n/a	-	-
	Culverts	m2	-	-	-	-	-	-	-	1	-	1	-	-	1	-	1
	Footbridges	m2	-	-	-	-	-	-	100	-	-	-	-	100	-	-	-
	Coastal & Estuary Defences	m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Retaining Walls	m2	1	1,000	1	-	1	-	-	-	-	-	(1)	(1,000)	(1)	-	(1)
	Earthworks	5-chain	22	45	1	-	1	29	114	2	-	2	7	69	1	-	1
	EW Drainage		5	365	2	-	2	-	362	4	-	4	(5)	(3)	2	-	2
	Renewal	lm	-	170	-	-	-	-	63	-	-	-	-	(107)	-	-	-
	Refurbishment	lm	-	20	-	-	-	-	210	-	-	-	-	190	-	-	-
	Maintenance	lm	-	-	-	-	-	-	89	-	-	-	-	89	-	-	-
	New Build	lm	-	175	-	-	-	-	-	-	-	-	-	(175)	-	-	-
	Structures other		-	-	-	1	1	-	-	-	1	1	-	n/a	-	-	-
	Other		-	-	-	-	-	-	-	-	(4)	(4)	-	n/a	-	(4)	(4)
	Total				20	6			-	31	(3)	28		-	11	(9)	2

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	17	n/a	n/a	n/a	-	13	n/a	n/a	n/a	-	(4)
	Footbridges	m2	4	240	1	-	1	-	510	n/a	n/a	-	n/a	270	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	5	-	5	-	2,520	n/a	n/a	-	n/a	2,520	n/a	n/a	-
	Platforms	m2	0	13,417	6	-	6	-	3,551	n/a	n/a	-	n/a	(9,866)	n/a	n/a	-
	Buildings	m2	-	7,790	-	-	-	-	-	n/a	n/a	-	n/a	(7,790)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	5	5	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	2	n/a	n/a	n/a	-	2	n/a	n/a	n/a	n/a	-
	Footbridges	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	-	2,500	n/a	n/a	-	n/a	2,500	n/a	n/a	-
	Buildings	m2	0	6,182	1	-	1	-	730	n/a	n/a	-	n/a	(5,452)	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		-	-	1	-	1	-	3,700	-	-	4	n/a	3,700	n/a	n/a	3
	Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	-	3,700	n/a	n/a	-	n/a	3,700	n/a	n/a	-
	Lineside Buildings	m2	-	-	1	-	1	-	2,009	n/a	n/a	2	n/a	2,009	n/a	n/a	1
	MDU Buildings	m2	-	-	1	-	1	-	-	n/a	n/a	1	n/a	-	n/a	n/a	-
	Depot Plant		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	NDS Depots		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(3)	n/a	n/a	n/a	n/a	(3)
	Total				16	6	22			-	-			-	-	-	(3)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Overhead Line Equipment (OLE) Re-wiring	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	235	17	4	-	4	-	7	n/a	n/a	3	n/a	(10)	n/a	n/a	(1)
	AC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	7	-	-	n/a	n/a	15	n/a	n/a	n/a	n/a	8
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	1,000	2	2	-	2	-	18	n/a	n/a	-	n/a	16	n/a	n/a	-
	LV Switchgear Renewal	No.	53	57	3	-	3	-	33	n/a	n/a	-	n/a	(24)	n/a	n/a	-
	LV Cables	km	-	-	-	-	-	-	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Transformer Rectifiers	No.	333	3	1	-	1	-	-	n/a	n/a	-	n/a	(3)	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	-	-	-	n/a	n/a	10	n/a	n/a	n/a	n/a	10
	Signalling Power Cable Renewal	km	-	-	-	-	-	-	40	n/a	n/a	-	n/a	40	n/a	n/a	-
	Principle Supply Point Renewal	No.	-	-	-	-	-	-	4	n/a	n/a	-	n/a	4	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	-	-	-	-	-	18	n/a	n/a	-	n/a	18	n/a	n/a	-
	SCADA		-	-	-	-	-	-	-	n/a	n/a	3	n/a	n/a	n/a	n/a	3
	Energy efficiency		-	-	-	2	2	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(2)
	System capability / capacity		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other electrical power		-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					10	3	13			-	-	32			-	-	19

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	-	-	-	-	-	1	n/a	n/a	n/a	n/a	1
	Customer Information Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Address CCTV	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Operational Comms		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
		No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	PABX Concentrator	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Driver-Only Operation: CCTV	Lines	-	-	-	-	-	-	62	n/a	n/a	-	n/a	62	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Emergency Telephone System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Projects and other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Non route capex		n/a	n/a	n/a	4	4	n/a	n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	-
	Total				-	4	4			-	-	5			-	-	1

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

in £m 2014-15 prices unless stated

		2014-15										Difference to Business Plan					
		Actual					Network Rail Business Plan					Other non-volume costs					
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Wheeled plant and machinery	High output		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Intervention		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Materials delivery		n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)
	On track plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	
Total					-	4	4			-	9	9			-	5	5
IT	IM delivered renewals		n/a	n/a	n/a	9	9	n/a	n/a	n/a	8	8	n/a	n/a	n/a	(1)	(1)
	Traffic management		n/a	n/a	n/a	-	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	1
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	9	10			-	10	10			-	1	-
Property	MDUs/offices		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Commercial estate		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	-	-			-	3	3			-	3	3
Other renewals	Asset information strategy		n/a	n/a	n/a	1	1	n/a	n/a	n/a	4	4	n/a	n/a	n/a	3	3
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-
	Faster isolations		n/a	n/a	n/a	7	7	n/a	n/a	n/a	2	2	n/a	n/a	n/a	(5)	(5)
	LOWS		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	CP4 Rollover		n/a	n/a	n/a	15	15	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(15)	(15)
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Total					-	24	24			-	10	10			-	(14)
Total Renewals					-	-	162			-	-	198			-	-	36

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

In £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statement 9a.
- (3) Track - Conventional - the reduced outturn in Conventional works is predominantly driven by a continued reduction in activity across complete renewal and re-railing portfolio. Access (especially on routes associated with Thameslink), plant and resource shortages (impacted by the time taken to embed new contractors) have combined to result in a reduced outturn.
- (4) Track - High Output - this year the High Output programme has delivered well but still lower than planned. The planned High Output programme has been pushed back to future years to facilitate longer-term planning horizons.
- (5) Track - fencing – volumes are below plan mostly due to a re-profiling of activity to later in the control period.
- (6) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (7) Signalling - Full Conventional Resignalling - the workbank is well below plan largely due to delays in Victoria resignalling programme. This arose from contractual negotiations which are now resolved with the activity re-scheduled for 2016/17 to align with track access and avoid resource clashes with the Thameslink programme.
- (8) Signalling - Level Crossings - workbank is above plan across due to commissioning a scheme (East Sussex Coast) in the year which was originally scheduled to complete in 2013/14.
- (9) Structures - Underbridges – volumes were impacted by decision to postpone Thorndell Viaduct scheme to future years. Flooding in the Arun valley and difficulty obtaining access influenced this decision.
- (10) Structures - Overbridges - workbank is below plan. The reduced outturn is due to unplanned programme slippage on the Station Road, Lewes scheme as a result of a development hiatus caused by the introduction of certain framework contracts.
- (11) Structures - Tunnels - volumes is less than Network Rail's published CP5 Business Plan due to re-profiling of activity within the control period.
- (12) Structures - Footbridges - volumes is less than Network Rail's published CP5 Business Plan due to re-profiling of activity within the control period.
- (13) Structures - Retaining Walls – no volumes were included in the CP5 Delivery Plan until 2016/17. The volumes recognised in the year relate to activity planned for CP4.

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

In £m 2014-15 prices unless stated

- (14)Earthworks - volumes are below plan mostly due to concentrating on delivering remedial works following damage caused by the extreme weather in 2013/14. This delayed productivity on the core workbank. In addition, a change in contractor resulted in a delay in delivery.
- (15)Buildings - Franchised Stations - within the workbank there has been significant movement across the majority of the portfolio this year with some positive outturn on Buildings and Platforms (both at East Croydon). This is offset by Canopies where the work at East Croydon as been pushed back to next year.
- (16)Buildings - Managed Stations - across the portfolio there is large amount of deviation in volume terms. Managed Stations Buildings has a favourable deviation from plan, which is mostly due to additional works at Victoria Station which was expected to complete in CP4 and so was not included in the CP5 Business Plan.
- (17)Electrification - Conductor Rails - Volumes are higher than Network Rail's published CP5 Business Plan largely as the result of re-profiling undertaken respectively, to manage delivery within the confines of the wider route delivery strategy and in line with possession availability. Delays in finalising appropriate framework contracts has led to issues in securing sufficient access and haulage.
- (18)Electrification - DC Distribution - Early in CP5, Sussex route carried out a work bank review which determined that the first year of the control period was no longer deliverable due to insufficient development and the prioritisation of works originally planned for completion in CP4, which has constrained resource. This has lead to shortfalls on HV and LV Cable renewals.
- (19)Electrification - Signalling Power Cables - Volumes are below Network Rail's published CP5 Business Plan due to re-profiling of activity.
- (20)Electrification - Points Heaters - Volumes are below Network Rail's published CP5 Business Plan due to re-profiling of activity.
- (21)Telecoms - Operational Comms - PABX concentrators volumes are lower than Network Rail's published CP5 Business Plan as they are dependent on large renewal projects which can slip into future years.

Statement 1: Summary regulatory financial performance, Wales

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	261	259	2	213
Fixed Income	23	23	-	82
Variable Income	31	30	1	13
Other Single Till Income	18	18	-	20
Opex memorandum account	2	-	2	-
Total Income	335	330	5	328
Operating expenditure				
Network operations	28	26	(2)	27
Support costs	20	23	3	33
Traction electricity, industry costs and rates	13	11	(2)	14
Network maintenance	67	64	(3)	62
Schedule 4	6	17	11	9
Schedule 8	(4)	-	4	3
Total operating expenditure	130	141	11	148
Capital expenditure				
Renewals	135	136	1	203
PR13 enhancement expenditure	40	99	59	16
Non PR13 enhancement expenditure	4	-	(4)	31
Total capital expenditure	179	235	56	250
Other expenditure				
Financing costs	75	90	15	81
Corporation tax (received)/paid	-	-	-	-
Rebates	-	-	-	7
Total other expenditure	75	90	15	88
Total expenditure	384	466	82	486

Statement 1: Summary regulatory financial performance, Wales - continued

In £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was in line with the determination. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was higher than the determination due to a higher capacity charge. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is in line with the determination. This is set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – there is a minor amount reported this year. This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are higher than the determination mainly due to delays in enacting efficiency initiatives. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to high than planned British Transport Police costs. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are higher than the determination and the previous year which is mostly a result investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are lower than the determination from a roughly equal combination of efficiencies and deferral of renewals activities. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Operating expenditure – Schedule 8 resulted in receipts for the route this year, which was favourable to the determination. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (13) Capital expenditure - Renewals expenditure is in line with the determination which is due to a deferral of activity offset by efficient overspends. These variances are set out in more detail in Statement 9a.
- (14) Capital expenditure - PR13 Enhancements expenditure is lower than the determination. This is due to re-phasing of activity compared to the regulator's assumption. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.
- (17) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

Statement 2a: RAB - regulatory financial position, Wales

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	2,517	2,517	-
Indexation to 2013-14 prices	67	67	-
Opening RAB for the year (2013-14 prices)	2,584	2,584	-
Indexation for the year	51	51	-
Opening RAB (2014-15 prices)	2,635	2,635	-
Adjustments for the actual capital expenditure outturn in CP4	75	-	75
Renewals	120	136	(16)
PR13 enhancements	39	99	(60)
Non-PR13 enhancements	2	-	2
Total enhancements	41	99	(58)
Amortisation	(126)	(126)	-
Adjustments for under-delivery of regulatory outputs	(1)	-	(1)
Closing RAB at 31 March 2015	2,744	2,744	-

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	2,635
Adjustments for the actual capital expenditure outturn in CP4	75
Renewals	120
PR13 enhancements	39
Non-PR13 enhancements	2
Total enhancements	41
Amortisation	(126)
Adjustments for under-delivery of regulatory outputs	(1)
Closing RAB	2,744

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

In £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment (RAB increase) – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was due to some efficient overspends on some renewals categories (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was lower than the regulator assumed. This was due to a deferral of enhancement activity. The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position. The missed outputs for the RAB this year relate to the estimated impact of missed enhancement milestones relating to Phase 3 of the Barry to Cardiff Queen Street line development. This is an assessment based on information available but the regulator retains discretion over the final level of adjustment to be made.

Statement 2b: RAB - reconciliation of expenditure, Wales

in £m 2014-15 prices unless stated

Total as at 31/03/15

Renewals

Renewals per the PR13 determination	136
Adjustments to the PR13 determination	
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	5
Capitalised financing on CP4 deferrals	-
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (renewals)	141
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(65)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)
Adjustments for efficient overspend	56
Capitalised financing on efficient overspend	1
25% retention of efficient overspend	(14)
Capitalised financing on efficient overspend 25% retention	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing on efficient underspend 25% retention	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments for efficient overspend through spend to save framework	3
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other adjustments	-
Capitalised financing on other adjustments	-
Total Renewals (added to the RAB - see Statement 2a)	120
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	-
Adjustment for retention of efficient overspend (including spend to save adjustment)	15
Adjustment for retention of efficient underspend	-
Other adjustments	-
Total actual renewals expenditure (see statement 9)	135

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

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	99
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	-
Capitalised financing on CP4 deferrals	-
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	-
Capitalised financing on adjustments to DfT funding	-
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (enhancements)	99
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(59)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)
Adjustments for efficient overspend	-
Capitalised financing on efficient overspend	-
25% retention of efficient overspend	-
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-
Capitalised financing relating to projects with tailored protocols or fixed price	-
Adjustments for efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	39
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	2
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	-
Capitalised financing on non-PR13 enhancements expenditure	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	-
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	2
Total enhancements (added to the RAB - see statement 2a)	41
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	1
Adjustment for retention of efficient overspend (including spend to save adjustment)	-
Other adjustments (including discretionary investment)	2
Adjustment for retention of efficient underspend	-
Non-PR13 enhancement expenditure	
Third party funded schemes	54
Other adjustments	-
Total actual enhancement expenditure (see statement 3)	98

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

In £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted.
- (10) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (11) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.

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

In £m 2014-15 prices unless stated

- (12) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.
- (13) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition.

Statement 3: Analysis of enhancement capital expenditure, Wales

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Funds			
East coast connectivity	-	-	-
Stations - National Station Improvement Programme (NSIP)	-	2	2
Stations - Access for All (AfA)	4	6	2
Development	3	2	(1)
Level crossing safety	-	1	1
Passenger journey improvement	-	4	4
The strategic rail freight network	2	3	1
Total funds	9	18	9
Committed projects			
Bridgend to Swansea electrification	4	2	(2)
GW electrification	13	50	37
IEP Programme	-	-	-
Total committed projects	17	52	35
Third party funded			
Welsh Valley lines electrification	2	10	8
Total Third Party funded	2	10	8
CP4 Project Rollovers			
Barry - Cardiff Queen Street corridor	11	13	2
Station Security	-	-	-
Other CP4 Rollover	-	-	-
Total CP4 rollovers	11	13	2
Other projects			
Seven day railway projects	-	-	-
R&D allowance	-	1	1
Income generating property schemes	1	3	2
Other income generating investment framework schemes	-	2	2
Total other projects	1	6	5
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	40	99	59
B) Investments not included in PR13			
Government sponsored schemes			
Other government sponsored schemes	1	-	(1)
Total Government sponsored schemes	1	-	(1)
Network Rail spend to save schemes			
Other spend to save schemes	1	-	(1)
Total Network Rail spend to save schemes	1	-	(1)
Total Schemes promoted by third parties	-	-	-
Discretionary Investment	2	-	(2)
Total non PR13 enhancement expenditure	4	-	(4)
Total Network Rail funded enhancements (see Statement 1)	44	99	55
Third Party PAYG	54	-	(54)
Total enhancements (see statement 2b)	98	99	1

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

In £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £44m (as shown in Statement 1). This comprises the total enhancement figure in the table above £98m less the PAYG schemes funded by third parties (£54m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when investment activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (c) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. The regulator assumed a different profile of expenditure in the determination compared the profile planned by Network Rail resulting in additional expenditure this year but costs during the control period are not expected to exceed the funding available.

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

In £m 2014-15 prices unless stated

- (d) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
 - (a) GW electrification - This project will extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure on the current year was higher than the regulator expected. This is a combination of additional costs and acceleration of activity from future years. The expected costs of this project are higher than the funding settlement set through the ECAM process. As a result Network Rail has recognised financial underperformance (refer to Statement 5a) meaning that not all of the expenditure in the year is eligible for inclusion in the RAB (refer to Statement 2a).
- (7) PR13 funded schemes – Third party funded - the only programme in this category is Welsh Valley lines electrification. Expenditure in the year was lower than the regulator assumed due to re-profiling of the project into later years. This was largely due to uncertainties over how the industry/ government planned to finance the programme leading to delays in milestones.
- (8) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
 - (a) R&D allowance – the regulator assumed that Network Rail would invest this fund evenly over the control period. However, Network Rail have spent more slowly in the first year of the control period as it seeks to identify those schemes which will deliver maximum benefit to the industry. The R&D allowance is a new principle for control period 5 so Network Rail is considering the optimal use of this funding allowance.
 - (b) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (9) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
 - (a) Government sponsored – as expected, this is lower than last year. Intuitively, towards the end of a control period it would be likely that this level of expenditure would be relatively high as most programmes that emerge during the control period are likely to be funded through this mechanism.
 - (b) Discretionary investment – this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).
 - (c) PAYGO – The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year. The largest programme in this category this year is the North-South Wales journey time improvement. There is also a sizeable amount of expenditure to improve station access to all members of society which has delivered improvements across a number of different stations.

Statement 4: Net debt and financial ratios, Wales

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	1,774	1,763	(11)
Income			
Grant income	(261)	(259)	2
Fixed charges	(23)	(23)	-
Variable charges	(31)	(30)	1
Other single till income	(18)	(18)	-
Total income	(333)	(330)	3
Expenditure			
Network operations	28	26	(2)
Support costs	20	23	3
Traction electricity, industry costs and rates	13	11	(2)
Network maintenance	67	64	(3)
Schedule 4	6	17	11
Schedule 8	(4)	-	4
Renewals	135	136	1
PR13 enhancement	40	99	59
Non-PR13 enhancement	4	-	(4)
Total expenditure	309	376	67
Financing			
Interest expenditure on nominal debt - FIM covered	26	29	3
Interest expenditure on index linked debt - FIM covered	13	14	1
Expenditure on the FIM	19	20	1
Interest expenditure on government borrowing	5	-	(5)
Interest on cash balances held by Network Rail	(1)	(1)	-
Total interest costs	62	62	-
Accretion on index linked debt - FIM covered	13	28	15
Total financing costs	75	90	15
Corporation tax	-	-	-
Other	22	31	9
Movement in net debt	73	167	94
Closing net debt	1,847	1,930	83

D) Financial indicators

	2014-15 Actual	2014-15 PR13
Adjusted interest cover ratio (AICR)	1.24	1.00
FFO/interest	3.27	3.03
Net debt/RAB (gearing)	67.3%	70.4%
FFO/debt	11.0%	9.8%
RCF/debt	7.6%	6.6%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.2%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

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

In £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to Wales increased by around £70m during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is around £80m lower than the regulator assumed. This is mostly due to lower enhancement investment in the railway network, lower performance regime costs, lower than expected interest costs and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.

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

In £m nominal unless otherwise stated

- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed. The rates for this type of debt have been generally in line with expectation but, as discussed above, Network Rail has reduced the proportion of index-linked debt held.
- c. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- d. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- e. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(14) 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 April 2014.

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

(15) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected Network Rail to only just cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). The favourable variance to the regulator's target is mostly due to lower performance regime expenditure compared to the regulator's assumption.

(16) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m.

in £m 2014-15 prices unless stated

[illegible]

Statement 5a: Total financial performance, Wales - continued

in £m 2014-15 prices unless stated

	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - OSTI:						
Adjustment for Crossrail finance charge	-	-	-	-	-	-
Adjustment for Welsh Valleys finance charge	-	1	(1)	-	1	(1)
Total variance not included in total financial performance:	-	1	(1)	-	1	(1)

	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Breakdown of variance not included in total financial performance - Support costs:						
Release of CP4 long distance financial penalty provision	1	-	1	1	-	1
Total variance not included in total financial performance:	1	-	1	1	-	1

Statement 5a: Total financial performance, Wales - continued

In £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Variable income – financial outperformance has been delivered mostly as a result of increased capacity charges reflecting additional passenger demand for rail services.
- (3) Other single till income – the regulator's determination assumed that Network Rail would receive income for the Welsh Valley financing charges. The assumption was that the DfT would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, there is still some uncertainty about how this programme will be funded which has caused delays in construction (as reflected in Statement 3). As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income is made to reflect the neutral impact of changes in the funding arrangements. The outperformance recognised in Other single till income is mainly the result of additional property and freight income.
- (4) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (5) Network operations – costs are higher than the determination mainly due to delays in enacting efficiencies, including slippage to signalling renewals projects designed to reduce on-going costs.

Statement 5a: Total financial performance, Wales - continued

In £m 2014-15 prices unless stated

- (6) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (7) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police costs compared to the assumption in the determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.
- (8) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on reactive maintenance in the opening year of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved. Underlying Network maintenance costs are higher than the determination. The main contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs.
- (9) Schedule 4 costs – costs were lower than the regulator assumed. However, not all of these savings have been classed as FPM. Schedule 4 possessions costs are incurred as a result of the level of renewals work undertaken. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to Schedule 4 so that a fair assessment of financial performance can be made. The slippage in the year on the Cardiff area resignalling programme has a significant influence on the deferral of Schedule 4 baselines. Financial outperformance has been generated by efficient planning of possession activities to minimise the need for possessions taken at short notice which are more disruptive (and, therefore, expensive) and by detailed local knowledge of diversionary routes to allow alternative train paths to be utilised.
- (10) Schedule 8 costs – the additional income compared to the determination is due to better than expected train performance. Operators in Wales have experienced good levels of performance leading to fewer compensation payments to operators.
- (11) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (12) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).
- (13) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.

Statement 5a: Total financial performance, Wales - continued

In £m 2014-15 prices unless stated

- (14) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wales were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wales also faces a reduction for this missed output.
- (3) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. The amount recognised in the year relates to Phase 3 of the Barry to Cardiff Queen Street line development.

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

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	11	27	(16)	(4)		(4)	-	-
Signalling	(3)	17	(20)	(5)		(5)	-	-
Civils	3	19	(16)	(4)		(2)	(2)	-
Buildings	1	1	-	-		-	-	-
Electrical power and fixed plant	2	2	-	-		-	-	-
Telecoms	-	-	-	-		-	-	-
Wheeled plant and machinery	5	5	-	-		-	-	-
IT	(3)	(3)	-	-		-	-	-
Property	-	-	-	-		-	-	-
Other renewals	(15)	(11)	(4)	(1)		-	(1)	-
Total	1	57	(56)	(14)		(11)	(3)	-

Where:

C = A - B

D = C x 25%

And:

D = E + F + G

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

In £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable cost underperformance in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Underlying costs in the current year are largely in line with Network Rail's plan. Benefits from favourable settlement of commercial claims on CP4 projects have been largely offset by delays on Cardiff area re-signalling project.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes, notably Cardiff area re-signalling project. Later than planned stage commissioning earlier in the project has resulted in delay and extra costs. Revisions to the project timescales has coincided with a re-planning of the appropriate delivery solution which has added additional cost into the programme. In addition, there are some projects scheduled to finish in CP4 which have incurred costs this year. No funding was provided for these schemes in the PR13 so expenditure manifests itself in financial underperformance.
- (4) Civils – cost overruns across a number of projects have contributed to the negative Civils FPM this year. Civils financial underperformance also includes additional costs that have arisen as a result of storm damage and other weather events. Whilst some of this work has been funded by external insurers, some has remained within the organisation. The extra costs of repairing these structures and earthworks is not included in the determination allowances but are required to be completed in order to preserve the operational capability of the railway network. There were some projects which were expected to complete in 2013/14 (and so there was no funding available in the CP5 settlement) which incurred costs this year, leading to financial underperformance. Finally, additional underbridge costs on River Teme and Severn viaduct jobs contributed to the negative FPM.
- (5) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. Whilst some of these additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan others, (notably FTN) have emerged in 2014/15. As not all of these CP4 rollover projects have finished not all of the expected FPM has been recognised in 2014/15. As these projects complete in the next couple of years additional negative FPM will crystallise later in the control period.

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

in £m 2014-15 prices unless stated

			2014-15			
	Variance to adjusted PR13	Variance due to ECAM adjustment	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
GW electrification (Paddington to Cardiff)	37	25	62	-	-	-
Other Enhancements	18	-	18	-	-	-
Total	55	25	80	-	-	-

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

In £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) No FPM has been recognised for enhancement schemes in 2014/15.

Statement 5d: REBS Reconciliation, Wales

in £m 2014-15 prices unless stated

	A	B	Cumulative to 2014-15		E	F	G
			C	D			
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	9	8	1	-	-	-	1
Capacity charge	9	8	1	-	-	-	1
Electricity asset utilisation charge	-	-	-	-	-	-	-
Property income [2]	1	1	-	-	-	-	-
Expenditure							
Network operations	28	25	(3)	-	-	-	(3)
Support costs	20	24	4	-	1	-	3
RSSB and BT Police	5	2	(3)	-	-	-	(3)
Network maintenance	67	62	(5)	(6)	-	-	1
Schedule 4 costs	6	18	12	7	-	-	5
Schedule 8 costs	(4)	-	4	-	-	-	4
Renewals	135	171	36	92	-	(42)	(14)
Total REBS performance			47	93	1	(42)	(5)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(1)
Under-delivery of train performance requirements (CaSL)							-
Total adjustment for under delivery of outputs and reduced sustainability							(1)
Cumulative performance to end of 2014-15							(6)
Net REBS performance for 2014-15							(6)

Where: $C = B - A$

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

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

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

In £m 2014-15 prices unless stated

Notes:

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

Statement 6a: Analysis of income, Wales

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	261	259	2	213
Franchised track access income				
Fixed charges	23	23	-	82
Variable charges	-	-	-	-
Variable usage charge	5	5	-	5
Traction electricity charges	-	-	-	-
Electrification asset usage charge	-	-	-	-
Capacity charge	9	8	1	7
Station usage charge	-	-	-	-
Schedule 4 net income	17	17	-	1
Schedule 8 net income	-	-	-	-
Total Variable charges income	31	30	1	13
Total franchised track access income	54	53	1	95
Total franchised track access and grant income	315	312	3	308
Other single till income				
Property income	1	-	1	3
Freight income	5	4	1	5
Open access income	-	-	-	-
Stations income	10	10	-	9
Facility and financing charges	-	2	(2)	-
Depots Income	2	2	-	3
Other income	-	-	-	-
Total other single till income	18	18	-	20
Total income	333	330	3	328

Statement 6a: Analysis of income, Wales - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ receivable from stakeholders under Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Fixed charges – fixed charge income was in line with the determination. Fixed charges cannot be compared to the prior year figure in a meaningful way. The amount of fixed charge income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The decrease in fixed charges compared to 2013/14 is partly offset by higher grant income received from government. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (4) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is significantly higher than the 2013/14 value. This is due to changes in the Schedule 4 compensation rates in control period 5 compared to control period 4, which also results in changes in the access charge supplement payable by operators.

Statement 6a: Analysis of income, Wales - continued

In £m 2014-15 prices unless stated

- (5) Facility and financing charges – this is lower than the determination which is mainly due to the Welsh Valleys finance charge income mechanism. The ORR assumed that Network Rail would receive income for the extra borrowing that they would need to do the Welsh Valley Electrification work. However uncertainty over the financing (see Statement 3) have meant that this work has not taken place. There has been a corresponding decrease in finance costs as borrowings have been lower than planned.

Statement 6b: Analysis of other single till income, Wales (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property Income				
Property rental	1	1	-	1
Property sales	-	-	-	2
Adjustment for commercial opex	-	(1)	1	-
Total property income	1	-	1	3
Freight income				
Freight variable usage charge	4	4	-	4
Freight traction electricity charges	-	-	-	-
Freight electrification asset usage charge	-	-	-	-
Freight capacity charge	-	-	-	-
Freight only line charge	-	-	-	1
Freight specific charge	-	-	-	-
Freight other income	1	-	1	-
Freight coal spillage charge	-	-	-	-
Total freight income	5	4	1	5
Open access income				
Variable usage charge income	-	-	-	-
Open access capacity charge	-	-	-	-
Open access traction electricity charges	-	-	-	-
Fixed contractual contribution	-	-	-	-
Open access other income	-	-	-	-
Total open access income	-	-	-	-
Stations income				
Managed stations income				
Long term charge	-	-	-	-
Qualifying expenditure	-	-	-	-
Total managed stations income	-	-	-	-
Franchised stations income				
Long term charge	9	9	-	8
Stations lease income	1	1	-	1
Total franchised stations income	10	10	-	9
Total stations income	10	10	-	9
Facility and financing charges				
Facility charges	-	1	(1)	-
Crossrail finance charge	-	-	-	-
Welsh Valleys finance charge	-	1	(1)	-
Total facility and financing charges	-	2	(2)	-
Depots income	2	2	-	3
Other	-	-	-	-
Total other single till income	18	18	-	20

Statement 6b: Analysis of other single till income, Wales (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	18	14	(4)	18
Signalling shift managers	-	1	1	-
Local operations managers	1	1	-	1
Controllers	2	2	-	4
Electrical control room operators	-	-	-	-
Total signaller expenditure	21	18	(3)	23
Non-signaller expenditure				
Mobile operations managers	1	2	1	1
Managed stations	-	2	2	-
Performance	-	1	1	-
Customer relationship executives	1	-	(1)	-
Route enhancement managers	-	-	-	-
Weather	-	1	1	-
Other	-	1	1	-
Operations delivery	-	-	-	-
HQ - Operations services	1	-	(1)	-
HQ - Performance and planning	1	-	(1)	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	4	2	(2)	3
Other operating income	(1)	(1)	-	-
Total non-signaller expenditure	7	8	1	4
Total network operations expenditure	28	26	(2)	27
Support costs				
Core support costs				
Human resources	2	3	1	3
Information management	4	3	(1)	3
Government and corporate affairs	1	1	-	1
Group strategy	1	1	-	1
Finance	1	2	1	1
Business services	1	1	-	1
Accommodation	2	-	(2)	4
Utilities	2	1	(1)	3
Insurance	1	1	-	2
Legal and inquiry	-	-	-	1
Safety and sustainable development	1	1	-	1
Strategic sourcing	-	1	1	-
Business change	-	-	-	-
Other corporate functions	4	-	(4)	1
Core support costs	20	15	(5)	22
Other support costs				
Asset management services	2	5	3	2
Network Rail telecoms	2	3	1	3
National delivery service	-	-	-	-
Infrastructure Projects	(1)	-	1	(3)
Commercial property	-	-	-	1
Group costs	(3)	-	3	8
Total other support costs	-	8	8	11
Total support costs	20	23	3	33
Traction electricity, industry costs and rates				
Traction electricity	-	-	-	-
Business rates	6	6	-	8
British transport police costs	4	3	(1)	5
RSSB costs	1	1	-	-
ORR licence fee and railway safety levy	2	1	(1)	1
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
Total traction electricity, industry costs and rates	13	11	(2)	14
Total network operations expenditure, support costs, traction electricity, industry costs and rates	61	60	(1)	74

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

In £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the regulator's assumptions, mostly due to delays in enacting efficiencies, including slippage to signalling renewals projects designed to reduce on-going cost
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (5) Other corporate functions – costs are higher than the prior year mostly due to higher Route Services and Route Asset Management costs. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or did not expect the same level of organisational requirement. The savings compared to the PR13 in Human Resources and Asset Management are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b.
- (6) Asset Management Services – costs were lower than the determination partly as a result of certain responsibilities transferring from central functions to routes to drive optimal decision-making. These costs are included in the Other corporate functions heading. In addition, certain activities funded in the determination and in 2013/14 within the Asset Management Services category are now classified within Safety and sustainable development, resulting in higher costs in that area.
- (7) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.

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

In £m 2014-15 prices unless stated

- (8) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across its entire cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher British Transport Police costs.
- (9) British transport police costs - costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were noticeably higher than the regulator assumed when preparing their CP5 determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.

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

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	13	18
Operations and customer services non-signalling	-	-
MOMS	1	1
Control	2	2
Planning & Performance Staff Costs	2	-
Managed Stations Staff Costs	1	-
Operations Management Staff Costs	1	1
Other	7	5
Total operations & customer services costs	27	27
Total Network Operations	27	27
Support		
Human resources		
Functional support	1	1
Training (inc Westwood)	1	1
Graduates	1	-
Apprenticeships	-	-
Other	-	-
Total human resources	3	2
Information management		
Support	-	1
Projects	-	-
Licences	-	-
Business operations	3	3
Other	-	-
Total information management	3	4
Finance	1	1
Business Change	-	-
Contracts & procurement	-	-
Strategic Sourcing (National Supply Chain)	-	-
Planning & development	1	1
Safety & compliance	1	-
Other corporate services	3	1
Commercial property	6	2
Infrastructure Projects	(3)	(1)
Route Services	1	1
Asset management & Engineering/Asset heads	6	-
National delivery service	-	-
Utilities	-	2
Network Rail telecoms	-	2
Digital Railway	-	1
Safety Technical & Engineering	-	2
Government & Corporate Affairs	-	1
Business Services	-	1
Route Asset Management	-	2
Legal and inquiry	-	-
Group/central	-	-
Pensions	-	-
Insurance	2	1
Redundancy/reorganisation costs	4	1
Staff incentives/Bonus Reduction	-	(1)
Accommodation & Support Recharges	-	(2)
ORR financial penalty	4	(1)
Other	1	-
Total group/central costs	11	(2)
Total support	33	20
Total network operations and support costs	60	47

Statement 7b: Analysis of network operations expenditure and support costs by activity, Wales (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	29	24	(5)	27
Signalling	11	10	(1)	10
Civils	11	12	1	10
Buildings	5	3	(2)	5
Electrical power and fixed plant	3	6	3	1
Telecoms	-	1	1	1
Other network operations	8	5	(3)	8
Asset management services	1	2	1	2
National Delivery Service	-	2	2	-
Property	-	-	-	-
Group	(1)	(1)	-	(2)
Total maintenance expenditure	67	64	(3)	62

Statement 8a: Summary analysis of network maintenance expenditure, Wales - continued

In £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are higher than the determination and the prior year. The main contributor to this was Network Rail's decision to reduce the level of incentive payouts to senior management and instead, re-invest this money into programmes to improve the safety and performance of the network. A significant amount was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Therefore, Network Rail were planning to have higher track maintenance costs than the PR13 even if National Delivery Services were not off-charged. Costs are broadly in line with the previous year, which also included a full off-charge of National Delivery Services activities, despite an increase in network traffic (and so wear and tear on the network) compared to CP4.
- (4) Civils – costs were lower than the determination mainly as a result of a lower level of Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR. Removing the impact of reactive maintenance, civils maintenance costs are higher than the PR13 assumed largely due to additional works required to maintain the asset condition which was exacerbated in some areas by delays in delivering the planned Civils workbank.
- (5) Buildings – there were no maintenance costs for Buildings reported in last year's Regulatory financial statements as the regulator chose to fund reactive maintenance works through Renewals last control period whereas this year, to be consistent with International Accounting Standards (IAS), these costs are accounted for as maintenance. The prior year has been restated to reflect these changes and provide a like-for-like comparison. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance between the actual and PR13 in the year is mostly due to differences in the reactive maintenance spend which has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.

Statement 8a: Summary analysis of network maintenance expenditure, Wales - continued

In £m 2014-15 prices unless stated

- (6) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category and accounts for the spend being higher than the regulator's assumption in 2014/15.
- (7) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective.

Statement 9a: Summary analysis of renewals expenditure, Wales

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	31	42	11	58
Signalling	46	43	(3)	59
Civils	29	32	3	58
Buildings	6	7	1	2
Electrical power and fixed plant	1	3	2	2
Telecoms	4	4	-	9
Wheeled plant and machinery	4	9	5	3
Information Technology	8	5	(3)	5
Property	-	-	-	1
Other renewals	6	(9)	(15)	6
Total renewals expenditure	135	136	1	203

Statement 9a: Summary analysis of renewals expenditure, Wales - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in for the year is lower than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – track costs are lower than the regulator assumed. This is due to a deferral of volumes offset by higher than expected underlying costs. Network Rail planned to spend nearly £15m more than the determination on a like for like basis. This higher underlying cost was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual underlying costs were in line with Network Rail's plan. Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were more than offset by deferral of activity to future years, notably on the Cardiff area re-signalling project (largely S&C) which continues to experience delays. Expenditure was much lower than the previous year mostly due to lower volumes. In CP4 a great deal of track activity was delivered towards the end of the five-year period.
- (3) Signalling – overall, expenditure was broadly in line with the determination. However, this was due to deferral of activity being offset by higher underlying costs. These extra costs include increases in the expected expense of Cardiff area re-signalling programme. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Deferral of activity is mostly on the Cardiff re-signalling project. The size of this project dominates the signalling workbank in Wales. In addition, there were also project re-profiling on NOS items and Level crossing projects. Expenditure is lower than the previous year which largely reflects changes in the workbank, including lower expenditure on Cardiff area project.

Statement 9a: Summary analysis of renewals expenditure, Wales - continued

In £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Civils underbridges – expenditure was higher than the regulator assumed largely due to an acceleration of volumes later years of the control period. Earthworks expenditure is lower than the regulator's assumption due to a re-profiling of volumes to later in the control period. Expenditure is noticeably lower than the previous year. In CP4 Government provided some additional funds for accelerated civils expenditure as part of a fiscal stimulus package for the economy.
- (5) Buildings – expenditure in the year is broadly in line with the determination. As expected investment is higher than the previous year due to a different workbank compared to CP4.
- (6) Electrical power and fixed plant – expenditure in the year was lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant.
- (7) Telecoms – expenditure in the year was in line with the determination. The largest contributor to the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements.
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5). Expenditure is higher than the previous year due to additional High output plant purchases and increased spend on Intervention items.
- (9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.
- (10) Other renewals
 - a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, although there has been spend on ORBIS this year, as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.

Statement 9a: Summary analysis of renewals expenditure, Wales - continued

In £m 2014-15 prices unless stated

- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- d. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN and ORBIS (as noted above). Expenditure on the FTN programmes has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

Statement 9b: Detailed analysis of renewals expenditure, Wales (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	6	9	3
High output renewal	-	-	-
Plain line refurbishment	7	5	(2)
S&C renewal	13	19	6
S&C refurbishment	1	4	3
Track non-volume	2	3	1
Off track	2	2	-
Total track	31	42	11
Signalling			
Full conventional resignalling	33	8	(25)
Modular resignalling	4	18	14
ERTMS resignalling	-	-	-
Partial conventional resignalling	-	-	-
Targeted component renewal	-	-	-
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	-	-	-
Operating strategy other capital expenditure	-	2	2
Level crossings	6	8	2
Minor works	2	6	4
Centrally managed costs	1	1	-
Total signalling	46	43	(3)
Civils			
Underbridges	17	11	(6)
Overbridges	2	3	1
Bridgeguard 3	-	-	-
Major structures	-	-	-
Tunnels	-	2	2
Other assets	5	5	-
Structures other	1	3	2
Earthworks	5	8	3
Other	(1)	-	1
Total civils	29	32	3
Buildings			
Managed stations	-	-	-
Franchised stations	4	5	1
Light maint depots	-	-	-
Depot plant	-	1	1
Lineside buildings	1	-	(1)
MDU buildings	1	-	(1)
NDS depots	-	1	1
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	6	7	1

Statement 9b: Detailed analysis of renewals expenditure, Wales (unaudited) - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	-	-	-
Overhead Line	-	-	-
DC distribution	-	-	-
Conductor rail	-	-	-
SCADA	-	-	-
Energy efficiency	-	-	-
System capability / capacity	-	-	-
Other electrical power	-	1	1
Fixed plant and rail heating	1	2	1
Total electrical power and plant	1	3	2
Telecoms			
Operational communications	-	-	-
Network	-	1	1
SISS	-	-	-
Projects and other	1	1	-
Non-route capital expenditure	3	2	(1)
Total telecoms	4	4	-
Wheeled plant and machinery			
High output	1	4	3
Incident response	-	-	-
Infrastructure monitoring	-	-	-
Intervention	-	2	2
Materials delivery	1	-	(1)
On track plant	1	-	(1)
Seasonal	1	2	1
Locomotives	-	-	-
Fleet support plant	-	-	-
Road vehicles	-	1	1
S&C delivery	-	-	-
Total wheeled plant and machinery	4	9	5
Information Technology			
IM delivered renewals	7	4	(3)
Traffic management	1	1	-
Total information technology	8	5	(3)
Property			
MDUs/offices	-	-	-
Commercial estate	-	-	-
Corporate services	-	-	-
Total property	-	-	-
Other renewals			
Asset information strategy	-	3	3
Intelligent infrastructure	1	1	-
Faster isolations	-	2	2
LOWS	-	-	-
Small plant	-	-	-
Research and development	-	-	-
Phasing overlay	-	(15)	(15)
Engineering innovation fund	-	-	-
CP4 rollover	5	-	(5)
Other	-	-	-
West Coast	-	-	-
Total other renewals	6	(9)	(15)
Total renewals	135	136	1

Statement 9b: Detailed analysis of renewals expenditure, Wales (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Wales

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	6	17	11	9
Access charge supplement Income	(17)	(17)	-	(1)
Net (income)/cost	(11)	-	11	8
Schedule 8				
Performance element income	(5)	-	5	-
Performance element costs	1	-	(1)	3
Access charge supplement Income	-	-	-	-
Net (income)/cost	(4)	-	4	3

B) Opex memorandum account

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

Statement 10: Other information, Wales - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are lower than the determination due to more efficient planning of possessions and also from deferrals of renewals activity to later in the control period. When Network Rail measures its financial performance it does not take into account savings generated by renewal activity re-profiling, such as the delay in Cardiff signalling commissioning (refer to Statement 5). Minimising the number of late (and so more expensive) possessions has helped manage costs. In addition, costs in the current year benefitted from some favourable settlements of commercial claims. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the in year cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) There is net income receivable under the Schedule 8 performance regime this year compared to a minor cost assumed by the regulator. This favourable variance is due to better than expected train performance, especially on the long-distance elements in Wales. This has been achieved despite additional congestion on the network. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the in year result cannot be compared to the 2013/14 number in a meaningful way.
- (3) The opex memorandum currently shows a minor net income. This means that Network Rail's income in the PR18 will be adjusted to reflect this subject to the regulator's overall funding decisions for CP6. This includes amounts Network Rail have earned in the current year under the volume incentive mechanism from increased traffic on the railway (refer to Statement 12).

Statement 12: Volume incentives, Wales

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year	2013-14 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	1	-	15	15	0.1%	1.46	pence per passenger train mile
Passenger farebox (millions)	1	-	219	207	2.1%	2.5%	% of additional farebox revenue
Freight train miles (millions)	1	-	1	1	0.8%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	1	1	1,497	1,407	1.0%	2.50	pence per freight 1,000 gross tonne mile
Total volume incentive	4	1					

The cumulative volume incentive is determined by the formula: $VI_t = (A_t - (B_{t-1} \times (1 + C_t))) \times D \times 5$

Where:

A_t = Actual in year quantity

B = 2014-15 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Wales - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £1m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Wales

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	4,178	152	635	-	635	130	-	(22)	n/a
MNT005	Plain Line Stoneblowing (km)	km	11,943	176	2,102	-	2,102	127	-	(49)	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	150	3,525	529	-	529	1,584	-	(1,941)	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	213	553	118	-	118	-	-	(553)	n/a
MNT007	S&C Tamping (point end)	Point end	2,755	184	507	-	507	265	-	81	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	354	892	316	-	316	838	-	(54)	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	102	4,197	426	-	426	4,041	-	(156)	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	3,462	143	495	-	495	179	-	36	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	4	102,671	453	-	453	59,039	-	(43,632)	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	16	18,303	295	-	295	18,144	-	(159)	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	16	83,831	1,338	-	1,338	25,540	-	(58,291)	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	13	54,724	697	-	697	52,800	-	(1,924)	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	13,810	21	290	-	290	-	-	(21)	n/a
MNT122	S&C Maintenance (point end)	Point end	36	36,100	1,293	-	1,293	37,793	-	1,693	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	12,500	10	125	-	125	21	-	11	n/a
MNT124	S&C Stoneblowing (point end)	Point end	34,417	12	413	-	413	116	-	104	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	115	-	-	-	230	-	115	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	150	-	-	-	300	-	150	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	6	96,314	538	-	538	67,000	-	(29,314)	n/a
MNT073	Drainage (Yard)	Yard	13	12,001	153	-	153	20,427	-	8,426	n/a
MNT075	LX Management - Off Track (Each)	Each	248	1,808	448	-	448	1,493	-	(315)	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	28	3,558	100	-	100	2,000	-	(1,558)	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	-	81	-	-	-	-	-	(81)	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	3	300,004	953	-	953	336,010	-	36,006	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	1,059	353	374	-	374	751	-	398	n/a
N/A	Non volume track and off-track maintenance	£m				16,516	16,516				n/a
Total track and off-track maintenance					12,598	16,516	29,114		23,647		(5,467)
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				10,585	10,585			-	n/a
Total signalling maintenance						10,585	10,585		9,598		(987)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Wales - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	8,535	-	-	-	8,016	-	(519)	n/a
MNT221	Detailed Examinations	No.	-	815	-	-	-	1,862	-	1,047	n/a
MNT222	Underwater Examination	No.	-	164	-	-	-	235	-	71	n/a
MNT223	Ancillary Structure examination	No. detailed	-	49	-	-	-	20	-	(29)	n/a
MNT224	Hidden critical element examinations	No.	-	45	-	-	-	147	-	102	n/a
MNT225	Load carrying assessment	No. spans	-	310	-	-	-	915	-	605	n/a
MNT226a	Visual Examinations (Civils)	No.	-	5,611	-	-	-	7,905	-	2,294	n/a
N/A	Non volume civils maintenance	£m				11,499	11,499			-	n/a
Total civils maintenance						11,499	11,499		12,055		556
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	169	-	-	-	345	-	176	n/a
MNT227	5 yearly examinations	Each	-	23	-	-	-	65	-	42	n/a
N/A	Non volume buildings maintenance	£m				5,116	5,116			-	n/a
Total buildings maintenance						5,116	5,116		3,050		(2,066)
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	-	-	-	-	-	-	-	-	n/a
MNT209	Maintain DC Traction Power Supplies	Each	123	956	118	-	118	-	-	(956)	n/a
MNT211	Maintain OHL Components	Various	-	2	-	-	-	-	-	(2)	n/a
MNT212	Maintain Points Heating	Each	29	7,610	223	-	223	-	-	(7,610)	n/a
MNT213	Maintain Signalling Power Supplies	Number	55	2,456	136	-	136	-	-	(2,456)	n/a
N/A	Non volume electrical power and fixed plant maintenance	£m				2,713	2,713			-	n/a
Total electrical power and fixed plant maintenance						477	2,713		3,190		2,833
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				-	-			-	n/a
Total telecoms maintenance						-	-		1,203		1,203
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				7,919	7,919			-	n/a
Total other network operations maintenance						7,919	7,919		4,915		(3,004)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Wales - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
		Unit of Measure (unit)	In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description		£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				1,456	1,456			-	n/a
Total asset management services maintenance						1,456	1,456		1,881		425
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(276)	(276)			-	n/a
Total national delivery service maintenance						(276)	(276)		2,387		2,663
Property maintenance											
N/A	Non volume property maintenance	£m				175	175			-	n/a
Total property maintenance						175	175		200		25
Group maintenance											
N/A	Non volume group maintenance	£m				(1,333)	(1,333)		-	-	n/a
Total group maintenance						(1,333)	(1,333)		(935)		398
Total							67,445		64,024		(3,421)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Wales - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	ckm	213	61	13	-	13	354	65	23	-	23	141	4	10	-	10
	Conventional		667	9	6	-	6	867	15	13	-	13	200	6	7	-	7
	High Output		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Refurbishment		135	52	7	-	7	200	50	10	-	10	65	(2)	3	-	3
	S&C	point enc	412	34	14	-	14	218	119	26	-	26	(193)	85	12	-	12
	Track Drainage		0	8,449	1	-	1	0	6,312	2	-	2	0	(2,137)	1	-	1
	Renewal	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Refurbishment	lm	-	8,449	-	-	-	-	6,312	-	-	-	-	(2,137)	-	-	-
	New Build	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Fencing		29	68	2	-	2	15	132	2	-	2	(14)	64	-	-	-
	Slab Track		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Off track		-	-	-	1	1	(11)	-	-	1	1	(11)	-	-	-	-
Total					30	1	31			53	1	54			23	-	23
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	37	n/a	n/a	n/a	-	30	n/a	n/a	n/a	-	(7)
	Full conventional resignalling	SEU	289	114	33	-	33	22	364	8	-	8	(267)	250	(25)	-	(25)
	Modular resignalling	SEU	-	-	4	-	4	-	-	22	-	22	-	-	18	-	18
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Targeted component renewal	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Level crossings	No.	3,000	2	6	-	6	1,667	6	10	-	10	(1,333)	4	4	-	4
	Signalling other		-	-	-	3	3	-	-	-	7	7	-	-	-	4	4
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Operating strategy other capex		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Minor works		n/a	n/a	n/a	2	2	n/a	n/a	n/a	4	4	n/a	n/a	n/a	2	2
	Centrally managed costs		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-
Total					43	3	46			40	7	47			(3)	4	1

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	19	n/a	n/a	n/a	-	22	n/a	n/a	n/a	-	3
	Underbridges	m2	3	6,243	17	-	17	1	6,540	13	-	13	(1)	297	(4)	-	(4)
	Overbridges (incl BG3)	m2	-	-	2	-	2	3	2,100	7	-	7	3	2,100	5	-	5
	Tunnels	m2	-	-	-	-	-	1	600	2	-	2	1	600	2	-	2
	Major structures	m2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Other structures assets		n/a	n/a	n/a	-	5	n/a	n/a	n/a	-	5	n/a	n/a	n/a	-	-
	Culverts	m2	-	-	-	-	-	7	284	2	-	2	7	284	2	-	2
	Footbridges	m2	-	-	-	-	-	-	30	-	-	-	-	30	-	-	-
	Coastal & Estuary Defences	m	1	6,611	5	-	5	20	50	1	-	1	19	(6,561)	(4)	-	(4)
	Retaining Walls	m2	-	-	-	-	-	4	530	2	-	2	4	530	2	-	2
	Earthworks	5-chain	222	18	4	-	4	29	285	7	-	7	(193)	267	3	-	3
	EW Drainage		4	267	1	-	1	-	2,959	2	-	2	(4)	2,692	1	-	1
	Renewal	lm	-	-	-	-	-	-	500	-	-	-	-	500	-	-	-
	Refurbishment	lm	-	85	-	-	-	-	231	-	-	-	-	146	-	-	-
	Maintenance	lm	-	-	-	-	-	-	2,228	-	-	-	-	2,228	-	-	-
	New Build	lm	-	182	-	-	-	-	-	-	-	-	-	(182)	-	-	-
	Structures other		-	-	-	1	1	-	-	-	1	1	-	n/a	-	-	-
	Other		-	-	-	(1)	(1)	-	-	-	(5)	(5)	-	n/a	-	(4)	(4)
	Total				29	-	29			36	(4)	32			7	(4)	3

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	4	n/a	n/a	n/a	-	8	n/a	n/a	n/a	-	4
	Footbridges	m2	-	-	-	-	-	-	626	n/a	n/a	-	n/a	626	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	156	-	-	-	-	3,197	n/a	n/a	-	n/a	3,041	n/a	n/a	-
	Platforms	m2	3	292	1	-	1	-	818	n/a	n/a	-	n/a	526	n/a	n/a	-
	Buildings	m2	-	-	-	-	-	-	438	n/a	n/a	-	n/a	438	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	3	3	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-
	Footbridges	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		-	-	-	-	-	-	60,000	-	-	1	n/a	60,000	n/a	n/a	1
	Buildings	m2	-	-	-	-	-	-	60,000	n/a	n/a	-	n/a	60,000	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lineside Buildings	m2	-	-	1	-	1	-	1,000	n/a	n/a	2	n/a	1,000	n/a	n/a	1
	MDU Buildings	m2	5	203	1	-	1	-	-	n/a	n/a	1	n/a	(203)	n/a	n/a	-
	Depot Plant		-	-	-	-	-	-	-	n/a	n/a	2	n/a	n/a	n/a	n/a	2
	NDS Depots		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(4)	n/a	n/a	n/a	n/a	(4)
	Total				3	3	6			-	-	10			-	-	4

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Overhead Line Equipment (OLE) Re-wiring	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	AC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Transformer Rectifiers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	1	-	-	n/a	n/a	2	n/a	n/a	n/a	n/a	1
	Signalling Power Cable Renewal	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Principle Supply Point Renewal	No.	-	-	-	-	-	-	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	4	-	-	-	-	6	n/a	n/a	-	n/a	2	n/a	n/a	-
	SCADA		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Energy efficiency		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	System capability / capacity		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other electrical power		-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					-	1	1			-	-	3			-	-	2

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	-	-	-	-	-	-	n/a	n/a	n/a	n/a	-
	Customer Information Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Address CCTV	No.	-	14	-	-	-	-	-	n/a	n/a	-	n/a	(14)	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Operational Comms		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	PABX Concentrator	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Processor Controlled Concentrator	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Emergency Telephone System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	Projects and other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	(1)
	Non route capex		-	-	-	3	3	-	-	n/a	n/a	3	n/a	n/a	n/a	n/a	-
	Total				-	4	4			-	-	4			-	-	-

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

in £m 2014-15 prices unless stated

2014-15																			
		Actual					Network Rail Business Plan					Difference to Business Plan							
					Other non-volume costs							Other non-volume costs				Other non-volume costs			
Asset	Activity type	Unit	Unit cost	Volume	Unit cost	Total	Unit cost	Volume	Unit cost	Total	Unit cost	Volume	Unit cost	Total	Unit cost	Volume	Unit cost	Total	
			£k/unit	unit	x volume £m	£m	£k/unit	unit	x volume £m	£m	£k/unit	unit	x volume £m	£m	£k/unit	unit	x volume £m	£m	
Wheeled plant and machinery	High output		n/a	n/a	n/a	1		1	n/a	n/a	4		4	n/a	n/a	n/a	3	3	
	Incident response		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	Infrastructure monitoring		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	Intervention		n/a	n/a	n/a	-		-	n/a	n/a	2		2	n/a	n/a	n/a	2	2	
	Materials delivery		n/a	n/a	n/a	1		1	n/a	n/a	-		-	n/a	n/a	n/a	(1)	(1)	
	On track plant		n/a	n/a	n/a	1		1	n/a	n/a	-		-	n/a	n/a	n/a	(1)	(1)	
	Seasonal		n/a	n/a	n/a	1		1	n/a	n/a	2		2	n/a	n/a	n/a	1	1	
	Locomotives		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	Fleet support plant		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	Road vehicles		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	S&C delivery		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
Other		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-		
Total					-	4		4		-	8		8		-	4	4		
IT	IM delivered renewals		n/a	n/a	n/a	7		7	n/a	n/a	7		7	n/a	n/a	n/a	-	-	
	Traffic management		n/a	n/a	n/a	-		1	n/a	n/a	1		1	n/a	n/a	n/a	1	-	
	Other		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
Total					-	7		8		-	8		8		-	1	-		
Property	MDUs/offices		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	Commercial estate		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	Corporate services		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	Other		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
Total					-	-		-		-	-		-		-	-	-		
Other renewals	Asset information strategy		n/a	n/a	n/a	-		-	n/a	n/a	3		3	n/a	n/a	n/a	3	3	
	Intelligent infrastructure		n/a	n/a	n/a	1		1	n/a	n/a	1		1	n/a	n/a	n/a	-	-	
	Faster isolations		n/a	n/a	n/a	-		-	n/a	n/a	2		2	n/a	n/a	n/a	2	2	
	LOWS		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	Small plant		n/a	n/a	n/a	-		-	n/a	n/a	1		1	n/a	n/a	n/a	1	1	
	Research and development		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	Phasing overlay		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	Engineering Innovation																		
	Fund		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	West Coast		n/a	n/a	n/a	-		-	n/a	n/a	-		-	n/a	n/a	n/a	-	-	
	CP4 Rollover		n/a	n/a	n/a	5		5	n/a	n/a	-		-	n/a	n/a	n/a	(5)	(5)	
	Other		n/a	n/a	n/a	-		-	n/a	n/a	2		2	n/a	n/a	n/a	2	2	
Total					-	6		6		-	9		9		-	3	3		
Total Renewals						135		-		-		175		-		-	40		

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

In £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (3) Track - Switches & Crossings – Volumes are below plan with the main contributor being delays on the Cardiff Area Re-signalling scheme. Issues with contractors and the scope have works have lead to substantial re-phasing of activity across most aspects of this project. In addition, a lack of adequately skilled internal resource has compromised the ability to deliver the S&C refurbishment volumes as planned.
- (4) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (5) Signalling - Full Conventional Resignalling - the workbank is well below plan. The final phase of the Cardiff Area Re-signalling scheme was planned to commission (and so the volumes recognised) in the current year. However, due to complexities associated with its delivery and the knock-on effect of delays within the completion of earlier phases of the project this is now scheduled for later in the control period.
- (6) Signalling - Level Crossings - workbank is below plan due to the delays on a number of schemes (Carmarthen, Welshpool, Dovey and Pembrey) as resource and management focus has been elsewhere in the signalling portfolio. This work has been re-planned for future years.
- (7) Structures - Overbridges - workbank is below plan primarily relating to activity on Windsor Road and Ewenny Road where site works are ongoing but as the works are not completed yet, the volumes associated with the expenditure cannot be recognised. These are now expected to be reported in 2015/16.
- (8) Structures - Tunnels - The workbanks is below plan. A contributory factor has been resource and management focus on emergency works. These works are largely funded by Network Rail's captive insurance company or by external insurance providers and completion of such work is required to maintain asset condition and safety and so is prioritised over the workbank originally planned for the year.
- (9) Structures - Coastal & Estuarial Defences - Volumes are greater than Network Rail's published CP5 Business Plan due to additional, emergency activity undertaken to restore asset condition following storm damage. In 2013/14 a number of extreme weather events caused disruption and damage across important parts of the network in Wales which requires rectification and additional asset management plans to mitigate the impact of such events in the future.
- (10) Structures - Retaining Walls - Volumes are below plan due to a number of on-going schemes which were forecast for staged completion and, whilst ongoing, are yet to substantially complete and so no volumes have been recognised in line with the policy agreed with the regulator.

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

In £m 2014-15 prices unless stated

- (11) Earthworks - volumes are below plan in the three core areas of embankments, rock cuttings and soil cuttings. The key drivers for these variances are delays associated with the finalisation of framework contracts (as noted above), the impact of resource and deliverability restrictions and the prioritisation of emergency works following the emergence of additional work following the impact of extreme weather in 2013/14 upon the railway infrastructure. The route has also been involved in re-planning of Earthworks activities so that multiple jobs can be packaged together as part of the tendering process to allow an optimal price and delivery strategy.
- (12) Earthwork drainage - volumes of pipe works are substantively down from plan across all activity types. The workbank has been rephrased over years in order to maximise value for money. Work of this nature is usually delivered alongside wider earthworks interventions and therefore widespread slippage would be expected given the general trend of under delivery witnessed for Earthworks.
- (13) Buildings - Franchised Stations - within the workbank there has been significant movement across the majority of the portfolio this year. The entire planned footbridge activity has been deferred for a number of reasons including delays and uncertainty over the Valley Line Electrification programme, resource constraints and to obtain a better understanding of the scope of activity required. Canopy volumes are down due to difficulties acquiring the necessary resources (works at Newport and Whitchurch) which has been partly offset by completion (and hence volume recognition) of CP4 jobs at Porthmadog and Cardiff Queen Street.

Statement 1: Summary regulatory financial performance, Wessex

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	298	296	2	313
Fixed Income	26	27	(1)	91
Variable Income	100	96	4	76
Other Single Till Income	92	88	4	83
Opex memorandum account	(1)	-	(1)	-
Total Income	515	507	8	563
Operating expenditure				
Network operations	31	30	(1)	32
Support costs	31	39	8	57
Traction electricity, industry costs and rates	66	61	(5)	64
Network maintenance	94	93	(1)	84
Schedule 4	21	14	(7)	15
Schedule 8	19	1	(18)	26
Total operating expenditure	262	238	(24)	278
Capital expenditure				
Renewals	302	209	(93)	315
PR13 enhancement expenditure	58	61	3	81
Non PR13 enhancement expenditure	7	-	(7)	36
Total capital expenditure	367	270	(97)	432
Other expenditure				
Financing costs	112	128	16	118
Corporation tax (received)/paid	(1)	1	2	(1)
Rebates	-	-	-	10
Total other expenditure	111	129	18	127
Total expenditure	740	637	(103)	837

Statement 1: Summary regulatory financial performance, Wessex – continued

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was in line with the determination. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was higher than the determination mostly due to higher electricity costs that Network Rail could pass onto operators. This is offset by higher Operating expenditure. These variances are set out in more detail in Statement 6a.
- (5) Income – Other single till income in the year is higher than the determination due increased stations income. These variances are set out in more detail in Statement 6a.
- (6) Income – Opex memorandum account – there is a minor amount reported this year. This is disclosed in more detail in Statement 10.
- (7) Operating expenditure - Network Operations costs are broadly in line with the determination. This is discussed in more detail in Statement 7a.
- (8) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Traction electricity, industry costs and rates are higher than the determination largely due to higher electricity costs which are largely recovered from operators through income. These variances are set out in more detail in Statement 7a.
- (10) Operating expenditure - Network Maintenance costs are broadly in line with the determination. This is due to lower than expected Reactive maintenance activity partly offset by higher investment in certain programmes to improve safety and performance. The funding for this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (11) Operating expenditure - Schedule 4 costs are higher than the determination from a combination of higher than expected possession costs and acceleration of renewals activities. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Operating expenditure - Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets for the first year of the control period. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (13) Capital expenditure - Renewals expenditure is greater than the determination which is a combination of efficient overspends and phasing of activity. These variances are set out in more detail in Statement 9a.
- (14) Capital expenditure – overall PR13 Enhancements expenditure is broadly line with the determination. This is a combination of efficient overspends offset by re-profiling of programme delivery. These variances are set out in more detail in Statement 3.
- (15) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (16) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

Statement 1: Summary regulatory financial performance, Wessex – continued

in £m 2014-15 prices unless stated

- (17) Other expenditure – Corporation tax - the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.
- (18) Other expenditure – Rebates – in 2013/14 Network Rail returned amounts to government to allow them to share in Network Rail's outperformance of the regulatory settlement in CP4 (as measured through FVA – Financial Value Added). No such rebates were paid this year.

Statement 2a: RAB - regulatory financial position, Wessex

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	3,676	3,676	-
Indexation to 2013-14 prices	97	97	-
Opening RAB for the year (2013-14 prices)	3,773	3,773	-
Indexation for the year	75	75	-
Opening RAB (2014-15 prices)	3,848	3,848	-
Adjustments for the actual capital expenditure outturn in			
CP4	109	-	109
Renewals	276	209	67
PR13 enhancements	56	51	5
Non-PR13 enhancements	6	-	6
Total enhancements	62	51	11
Amortisation	(188)	(188)	-
Adjustments for under-delivery of regulatory outputs	(1)	-	(1)
Closing RAB at 31 March 2015	4,106	3,920	186

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	3,848
Adjustments for the actual capital expenditure outturn in	
CP4	109
Renewals	276
PR13 enhancements	56
Non-PR13 enhancements	6
Total enhancements	62
Amortisation	(188)
Adjustments for under-delivery of regulatory outputs	(1)
Closing RAB	4,106

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

in £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment (RAB increase) – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was higher than the regulator assumed. This was a combination of re-profiling activity from future years, expenditure rolled over from CP4 (for which the regulator adjusted the renewals allowances) offset by some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB was higher than the regulator assumed. This was due to an acceleration of activity and efficient overspends compared to the funding available (the value of which cannot all be logged by to the RAB). The variances are discussed in more detail in Statement 3.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position. The missed outputs for the RAB this year relate to the estimated impact of missed enhancement milestones relating to 10 Car South West Suburban Railway - Guilford via Cobham. This is an assessment based on information available but the regulator retains discretion over the final level of adjustment to be made.

Statement 2b: RAB - reconciliation of expenditure, Wessex

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Renewals	
Renewals per the PR13 determination	209
Adjustments to the PR13 determination	
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	19
Capitalised financing on CP4 deferrals	-
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (renewals)	228
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(39)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)
Adjustments for efficient overspend	108
Capitalised financing on efficient overspend	2
25% retention of efficient overspend	(27)
Capitalised financing on efficient overspend 25% retention	(1)
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing on efficient underspend 25% retention	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments for efficient overspend through spend to save framework	5
Capitalised financing on efficient overspend through spend to save framework	1
20% retention of efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other adjustments	-
Capitalised financing on other adjustments	-
Total Renewals (added to the RAB - see Statement 2a)	276
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	(1)
Adjustment for retention of efficient overspend (including spend to save adjustment)	27
Adjustment for retention of efficient underspend	-
Other adjustments	-
Total actual renewals expenditure (see statement 9)	302

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

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	51
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	21
Capitalised financing on CP4 deferrals	-
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	-
Capitalised financing on adjustments to DfT funding	-
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (enhancements)	72
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(20)
Capitalised financing on acceleration / (deferrals) of expenditure	-
Adjustments for efficient overspend	4
Capitalised financing on efficient overspend	-
25% retention of efficient overspend	(1)
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-
Capitalised financing relating to projects with tailored protocols or fixed price	-
Adjustments for efficient overspend through spend to save framework	1
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	-
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	56
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	6
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(1)
Capitalised financing on non-PR13 enhancements expenditure	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	1
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	6
Total enhancements (added to the RAB - see statement 2a)	62
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	-
Adjustment for retention of efficient overspend (including spend to save adjustment)	2
Other adjustments (including discretionary investment)	1
Adjustment for retention of efficient underspend	-
Non-PR13 enhancement expenditure	
Third party funded schemes	7
Other adjustments	-
Total actual enhancement expenditure (see statement 3)	72

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

in £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (9) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (10) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.

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

in £m 2014-15 prices unless stated

- (11) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (12) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will receive the other 20 per cent of the expense through additional income during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (13) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB.
- (14) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition.

Statement 3: Analysis of enhancement capital expenditure, Wessex

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
Funds			
East coast connectivity	-	-	-
Stations - National Station Improvement Programme (NSIP)	2	4	2
Stations - Access for All (AfA)	2	4	2
Development	7	3	(4)
Level crossing safety	1	2	1
Passenger journey improvement	-	6	6
The strategic rail freight network	2	10	8
Total funds	14	29	15
Committed projects			
IEP Programme	-	-	-
Total committed projects	-	-	-
Named schemes			
The Electric Spine:			
DfT SOFA amount	-	1	1
Total Electric Spine projects	-	1	1
South East			
Waterloo	8	1	(7)
Total South East	8	1	(7)
HLOS capacity metric schemes			
South London HV traction power upgrade	1	4	3
Reading, Ascot to London Waterloo train lengthening	1	1	-
Wessex traction power supply upgrade	5	4	(1)
Total HLOS capacity metric schemes	7	9	2
CP4 Project Rollovers			
DC Regeneration	1	1	-
Package 7,10 Car Park West Suburban Railway	15	11	(4)
Wessex Automatic Selective Door Opening	1	-	(1)
Station Security	-	-	-
Other CP4 Rollover	-	-	-
Total CP4 rollovers	17	12	(5)
Other projects			
Seven day railway projects	1	-	(1)
Depots and stabling	5	-	(5)
R&D allowance	1	1	-
Income generating property schemes	5	5	-
Other income generating investment framework schemes	-	3	3
Total other projects	12	9	(3)
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	58	61	3
B) Investments not included in PR13			
Government sponsored schemes			
Other government sponsored schemes	-	-	-
Total Government sponsored schemes	-	-	-
Network Rail spend to save schemes	-	-	-
Other spend to save schemes	3	-	(3)
Total Network Rail spend to save schemes	3	-	(3)
Total Schemes promoted by third parties	3	-	(3)
Discretionary Investment	1	-	(1)
Total non PR13 enhancement expenditure	7	-	(7)
Total Network Rail funded enhancements (see Statement 1)	65	61	(4)
Third Party PAYG	7	-	(7)
Total enhancements (see statement 2b)	72	61	(11)

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

in £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £65m (as shown in Statement 1). This comprises the total enhancement figure in the table above £72m less the PAYG schemes funded by third parties (£7m).
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when investment activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (c) Development - This fund includes CP6 Development, Network Rail Discretionary Funding, High Speed 2 funding and the Innovation Fund. The regulator assumed a different profile of expenditure in the determination compared the profile planned by Network Rail resulting in additional expenditure this year but costs during the control period are not expected to exceed the funding available.
 - (d) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.

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

in £m 2014-15 prices unless stated

- (e) The Strategic rail freight network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year was lower than the regulator assumed as work was re-profiled to later years.
- (6) PR13 funded schemes – named schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
 - (a) Waterloo - This project will deliver CP5 HLOS capacity metrics, address the impacts of forecast growth into London Waterloo station on the wider South West route and facilitate continued growth expectations into future control periods. Although expenditure was higher than the PR13 allowance in 2014/15 it was in line with Network Rail's internal budget. Network Rail has planned to deliver this programme to a different timescale than the ORR assumed.
 - (a) PR13 funded schemes – CP4 project rollover. In the regulator's determination there was an assumption that a number of projects expected to be finished in CP4 would not be finished until CP5. In addition, at 31 March 2014 there were additional projects in flight which the regulator's CP5 settlement assumed would be completed by then. Network Rail and ORR have worked together to establish a specific list of these projects for which ORR have agreed to adjust the regulatory allowances for the calculation of financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2) which are reflected in the PR13 column values in this statement.
- (7) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
 - (a) Seven day railway projects – Network Rail has invested this fund quicker than the regulator assumed in the first year of the control period. The seven day railway programme was also available in control period 5 meaning the company has a mature governance process for identifying appropriate projects. This has allowed Network Rail to accelerate funding from future years in order to gain maximum benefit of this fund by investing at the start of the control period.
 - (b) Depots and stabling – the regulator assumed that activity in this category will be substantially weighted towards future years of the control period whereas Network Rail is planning a more even phasing of expenditure.
 - (c) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (8) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
 - (a) Discretionary investment – this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).
 - (b) PAYGO - the year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year. Notable amounts included in this category this year include: contribution to Basingstoke campus, Wimbledon station, Twickenham station and Cranbrook station.

Statement 4: Net debt and financial ratios, Wessex

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	2,591	2,575	(16)
Income			
Grant income	(298)	(296)	2
Fixed charges	(26)	(27)	(1)
Variable charges	(100)	(96)	4
Other single till income	(92)	(88)	4
Total income	(516)	(507)	9
Expenditure			
Network operations	31	30	(1)
Support costs	31	39	8
Traction electricity, industry costs and rates	66	61	(5)
Network maintenance	94	93	(1)
Schedule 4	21	14	(7)
Schedule 8	19	1	(18)
Renewals	302	209	(93)
PR13 enhancement	58	51	(7)
Non-PR13 enhancement	7	-	(7)
Total expenditure	629	498	(131)
Financing			
Interest expenditure on nominal debt - FIM covered	39	40	1
Interest expenditure on index linked debt - FIM covered	19	20	1
Expenditure on the FIM	29	29	-
Interest expenditure on government borrowing	7	-	(7)
Interest on cash balances held by Network Rail	-	(1)	(1)
Total interest costs	94	88	(6)
Accretion on index linked debt - FIM covered	18	40	22
Total financing costs	112	128	16
Corporation tax	(1)	1	2
Other	33	45	12
Movement in net debt	257	165	(92)
Closing net debt	2,848	2,740	(108)

D) Financial indicators

	2014-15 Actual	2014-15 PR13
Adjusted interest cover ratio (AICR)	0.71	0.94
FFO/interest	2.72	3.07
Net debt/RAB (gearing)	69.4%	69.8%
FFO/debt	8.9%	9.9%
RCF/debt	5.7%	6.7%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.3%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

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

in £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to Wessex has increased by around £250m during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is £108m more than the regulator assumed. This is mostly due to higher investment in the railway network, higher performance regime costs and higher than assumed opening net debt partly offset by lower than expected interest costs and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.

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

in £m nominal unless otherwise stated

- b. Financing costs – interest expenditure on index-linked debt – FIM covered – costs are lower than the regulator assumed. The rates for this type of debt have been generally in line with expectation but, as discussed above, Network Rail has reduced the proportion of index-linked debt held.
- c. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- d. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Corporation tax – the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.

(14) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(15) 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 April 2014.

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

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator did not expect Network Rail to cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). The variance to the determination is mostly due to higher performance costs than the regulator planned.

(17) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m.

in £m 2014-15 prices unless stated

[illegible]

Statement 5a: Total financial performance, Wessex - continued

in £m 2014-15 prices unless stated

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Variable income:						
Adjustments for external traction electricity	(40)	(35)	(5)	(40)	(35)	- (5)
Total variance not included in total financial performance:	(40)	(35)	(5)	(40)	(35)	- (5)

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Support costs:						
Release of CP4 long distance financial penalty provision	2	-	2	2	-	- 2
Total variance not included in total financial performance:	2	-	2	2	-	- 2

Breakdown of variance not included in total financial performance -	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Traction electricity:						
Adjustments for external traction electricity	40	35	5	40	35	- 5
Total variance not included in total financial performance:	40	35	5	40	35	- 5

Statement 5a: Total financial performance, Wessex – continued

in £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – the variance to the determination is due to amounts payable under alliancing agreements. These have been entered into with Network Rail's alliancing partner in Wessex to incentivise collaborative working to deliver mutual benefits. Any alliancing payments (or receipts) fall within the scope of FPM and so the impact of this is included in the FPM calculation.
- (3) Variable income – There is a small financial underperformance in the year. This is due to lower than planned variable usage charge. The values in column A and B do not include income from traction electricity. Instead, this income is netted off against the traction electricity line within Expenditure to reflect the underlying impact of financial performance relating to traction electricity activities.
- (4) Other single till income – The outperformance recognised in Other single till income is mainly the result of additional income from stations and the facility charge.
- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs are broadly in line with the determination assumptions. Costs are slightly higher due to delays in achieving targeted efficiencies which contributes to financial underperformance recognised in the year.

Statement 5a: Total financial performance, Wessex – continued

in £m 2014-15 prices unless stated

- (7) Support costs – although costs are lower than the PR13 assumption, not all of this is allowable as FPM. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (8) Industry costs and rates – the negative FPM in the year is caused by higher British Transport Police (BTP) costs compared to the assumption in the determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.
- (9) Traction electricity – the values in columns A and B represent the net costs to Network Rail. Network Rail acquires electricity from providers and passes most of the costs onto train companies. The amounts under this heading refer to the cost of electricity retained by the company.
- (10) Network maintenance – the variances in the volume of work refers to Reactive maintenance expenditure. In line with the company's FPM guidelines no FPM was recognised on reactive maintenance in the opening year of the control period until the CAM (Civils Adjustment Mechanism) process has been fully resolved. Underlying Network maintenance costs are higher than the determination. The main contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs.
- (11) Schedule 4 costs – costs were higher than the regulator assumed which is partly due to additional renewals activity. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to Schedule 4 so that a fair assessment of financial performance can be made. Underlying costs in the year suffered from under accruing expected possession costs for 2013/14 track works. Also, the work undertaken around Wimbledon was much more expensive than the hypothetical rates in the Schedule 4 model.
- (12) Schedule 8 costs – the additional cost compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. Higher levels of infrastructure failure, network trespass and fatalities have also contributed to higher levels of delay.
- (13) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (14) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).

Statement 5a: Total financial performance, Wessex – continued

in £m 2014-15 prices unless stated

- (15) Non PR13 enhancements - the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project.
- (16) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.
- (17) Corporation tax – whilst corporation tax variances are within the scope of FPM, it is uncertain that gains made in the current year will continue throughout the control period. Given this uncertainty, no FPM has been recognised at this time and so the saving compared to the PR13 baseline has been treated as neutral for the current year. This will be reviewed and updated in future years.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wessex were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wessex also faces a reduction for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Wessex were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Wessex also faces a reduction for this missed output.
- (4) Missed enhancement milestones – where enhancement milestones have been missed and this has had a knock-on impact on the customer outputs an adjustment of 2 per cent of the costs of that stage of the project has been included in the FPM calculation. There amount in the year relates to 10 Car South West Suburban Railway - Guilford via Cobham.

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

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) performance D	Due to:	Cost (in) / efficiency E	Scope (in) / efficiency F	Other (in) / efficiencies G
Track	(12)	32	(44)	(11)		(10)	(1)	-
Signalling	-	8	(8)	(2)		(2)	-	-
Civils	(16)	-	(16)	(4)		(2)	(2)	-
Buildings	(1)	(1)	-	-		-	-	-
Electrical power and fixed plant	8	20	(12)	(3)		-	(3)	-
Telecoms	(1)	(1)	-	-		-	-	-
Wheeled plant and machinery	9	9	-	-		-	-	-
IT	(6)	(6)	-	-		-	-	-
Property	3	3	-	-		-	-	-
Other renewals	(77)	(49)	(28)	(7)		(1)	(6)	-
Total	(93)	15	(108)	(27)		(15)	(12)	-

Where:

$$C = A - B$$

$$D = C \times 25\%$$

And:

$$D = E + F + G$$

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

in £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines (April 2014)) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable cost underperformance in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Underlying costs in the current year are higher than planned. There were additional transition costs from changes in the main contractor for track delivery and High output delivered underperformance due to implementation issues on third rail areas (this was the first time that this had been tried) and lost volumes in the final quarter of the year (most of the costs such as mobilisation were still incurred). S&C costs were higher than expected as planned efficiencies initiatives did not deliver the savings required.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes, notably Poole to Wool but also on Farnham and Dean & Dean Hill. The Poole to Wool programme was originally expected to be commissioned in CP4 and the delays have led to additional costs recognised in CP5 which were not included in the regulatory allowances. In addition, the route management team made a conscious decision to invest in extra infrastructure projects to drive continuous improvement. Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned.
- (4) Civils – cost overruns across a number of projects have contributed to the negative Civils FPM this year. Wessex has experienced cost increases as the not all of the efficiencies targeted in the regulator's determination were achieved which, combined with the one-off cost increases on certain projects, resulted in negative FPM. Civils financial underperformance also includes additional costs that have arisen as a result of storm damage and other weather events in the October 2014 to March 2015 period as extra work was required to maintain the operational capabilities of the network. As these were emergency works, the cost of these is higher and the work is time-critical.
- (5) Electrical power and fixed plant – financial underperformance reported due to extra scope with projects rolled over from CP4 for which ORR did not provide any additional funding and higher than expected contractor claims relating to CP4 projects. The extra projects delivered extra cable volumes. In addition, the route management team made a conscious decision to invest in extra infrastructure projects to drive continuous improvement.
- (6) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. Whilst some of these additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (such as Basingstoke campus) and other electrification programmes), others, (notably FTN) have emerged in 2014/15. As not all of these CP4 rollover projects have finished not all of the expected FPM has been recognised in 2014/15. As these projects complete in the next couple of years additional negative FPM will crystallise later in the control period.

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

in £m 2014-15 prices unless stated

	Variance to adjusted PR13	Variance due to ECAM adjustment	2014-15 Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
DC Regeneration	-	-	-	-	-	-
Package 7,10 Car Park West Suburban Railway	(4)	-	-	-	(4)	(1)
Wessex Automatic Selective Door	(1)	-	(1)	-	-	-
Other Enhancements	1	-	1	-	-	-
Total	(4)	-	-	-	(4)	(1)

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

in £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) Package 7, 10 Car Park West Suburban Railway – this was a project rolled forward from CP4. Baseline funding for this project was agreed with the regulator after the start of the current control period. However, cost increases became apparent soon after the rollover funding was agreed.

Statement 5d: REBS Reconciliation, Wessex

in £m 2014-15 prices unless stated

	A	B	Cumulative to 2014-15		E	F	G
			C	D			
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	16	16	-	-	-	-	-
Capacity charge	30	30	-	-	-	-	-
Electricity asset utilisation charge	1	1	-	-	-	-	-
Property income [2]	36	36	-	-	-	-	-
Expenditure							
Network operations	31	28	(3)	-	-	-	(3)
Support costs	31	38	7	-	2	-	5
RSSB and BT Police	8	8	-	-	-	-	-
Network maintenance	94	93	(1)	9	-	-	(10)
Schedule 4 costs	21	16	(5)	(1)	-	-	(4)
Schedule 8 costs	19	-	(19)	-	-	-	(19)
Renewals	302	194	(108)	-	-	(81)	(27)
Total REBS performance			(129)	8	2	(81)	(58)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(10)
Under-delivery of train performance requirements (CaSL)							(3)
Total adjustment for under delivery of outputs and reduced sustainability							(13)
Cumulative performance to end of 2014-15							(71)
Net REBS performance for 2014-15							(71)

Where: $C = B - A$

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

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

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

in £m 2014-15 prices unless stated

Notes:

- (1) The REBS (Route Efficiency Benefit Sharing) mechanism is designed to encourage Network Rail and train operators to work together and allow both to share in Network Rail's efficiency gains or losses.
- (2) REBS replaces the EBSM (Efficiency Benefit Sharing Mechanism) system that was in place in CP4.
- (3) A key difference between the REBS and EBSM is that the REBS can result in Network Rail receiving compensation from train operators for worse than planned performance (although the gains/ losses available to the train operators is not symmetrical). Under EBSM, there was no downside risk for the train operators. Consequently, train operators had the ability to opt-out of the REBS mechanism.
- (4) Final amounts payable to/ receivable from train operators under the REBS mechanism will be decided by ORR following their detailed assessment of Network Rail's performance.
- (5) Network Rail and South West Trains have entered into an alliancing agreement in Wessex. This is designed to encourage collaborative working behaviours to drive improvements in passenger service and cost. The terms of this alliancing agreement have been agreed between Network Rail and South West Trains and are separate to the machinations of the REBS framework. Additional information on the alliancing arrangements is disclosed in Statement 10.

Statement 6a: Analysis of income, Wessex

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	298	296	2	313
Franchised track access income				
Fixed charges	26	27	(1)	91
Variable charges				
Variable usage charge	14	15	(1)	13
Traction electricity charges	40	35	5	38
Electrification asset usage charge	1	1	-	1
Capacity charge	30	30	-	9
Station usage charge	-	-	-	-
Schedule 4 net income	15	15	-	15
Schedule 8 net income	-	-	-	-
Total Variable charges income	100	96	4	76
Total franchised track access income	126	123	3	167
Total franchised track access and grant income	424	419	5	480
Other single till income				
Property income	38	39	(1)	32
Freight income	2	2	-	1
Open access income	1	1	-	-
Stations income	32	30	2	34
Facility and financing charges	12	10	2	9
Depots Income	7	6	1	7
Other income	-	-	-	-
Total other single till income	92	88	4	83
Total income	516	507	9	563

Statement 6a: Analysis of income, Wessex – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ received from stakeholders under Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Fixed charges – fixed charge income was slightly lower than the determination. This is due to net amounts payable under alliancing arrangements in place between Network Rail and South West trains to encourage collaborative working to drive passenger service and cost efficiencies (refer to Statement 10). Fixed charges cannot be compared to the prior year figure in a meaningful way. The amount of fixed charge income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The decrease in fixed charges compared to 2013/14 is partly offset by higher grant income received from government. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (4) Traction Electricity charges - these charges are governed by the prevailing market electricity prices and thus Network Rail has minimal control over these. Income is higher than the determination due to higher market electricity prices increasing the amounts Network Rail can pass on to train operators. However this is balanced by an overspend on electricity costs (as shown in Statement 7a). Traction electricity charges are slightly higher than the previous year.
- (5) Capacity charge - this is in line with the determination. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore the in year figure cannot be compared to 2013/14 in a meaningful way.

Statement 6a: Analysis of income, Wessex – continued

in £m 2014-15 prices unless stated

- (6) Property income – this is lower than the determination due lower property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Property income is higher than the previous year due to higher property sales as well as rental income.
- (7) Stations income – this is favourable to the regulator's assumption in both managed stations (Waterloo) and franchised stations.

Statement 6b: Analysis of other single till income, Wessex (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property Income				
Property rental	34	38	(4)	30
Property sales	4	5	(1)	2
Adjustment for commercial opex	-	(4)	4	-
Total property income	38	39	(1)	32
Freight income				
Freight variable usage charge	2	1	1	1
Freight traction electricity charges	-	-	-	-
Freight electrification asset usage charge	-	-	-	-
Freight capacity charge	-	-	-	-
Freight only line charge	-	1	(1)	-
Freight specific charge	-	-	-	-
Freight other income	-	-	-	-
Freight coal spillage charge	-	-	-	-
Total freight income	2	2	-	1
Open access income				
Variable usage charge income	-	-	-	-
Open access capacity charge	-	-	-	-
Open access traction electricity charges	1	1	-	-
Fixed contractual contribution	-	-	-	-
Open access other income	-	-	-	-
Total open access income	1	1	-	-
Stations income				
Managed stations income				
Long term charge	3	3	-	2
Qualifying expenditure	4	3	1	4
Total managed stations income	7	6	1	6
Franchised stations income				
Long term charge	17	16	1	19
Stations lease income	8	8	-	9
Total franchised stations income	25	24	1	28
Total stations income	32	30	2	34
Facility and financing charges				
Facility charges	12	10	2	9
Crossrail finance charge	-	-	-	-
Welsh Valleys finance charge	-	-	-	-
Total facility and financing charges	12	10	2	9
Depots income	7	6	1	7
Other	-	-	-	-
Total other single till income	92	88	4	83

Statement 6b: Analysis of other single till income, Wessex (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	10	16	6	12
Signalling shift managers	2	1	(1)	3
Local operations managers	6	1	(5)	2
Controllers	2	2	-	2
Electrical control room operators	2	1	(1)	2
Total signaller expenditure	22	21	(1)	21
Non-signaller expenditure				
Mobile operations managers	2	2	-	2
Managed stations	3	3	-	3
Performance	1	1	-	5
Customer relationship executives	-	-	-	-
Route enhancement managers	-	-	-	-
Weather	4	1	(3)	-
Other	3	1	(2)	-
Operations delivery	(3)	-	3	(3)
HQ - Operations services	-	-	-	-
HQ - Performance and planning	-	-	-	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	2	2	-	4
Other operating income	(3)	(1)	2	-
Total non-signaller expenditure	9	9	-	11
Total network operations expenditure	31	30	(1)	32
Support costs				
Core support costs				
Human resources	2	4	2	6
Information management	5	4	(1)	5
Government and corporate affairs	1	1	-	2
Group strategy	1	1	-	1
Finance	1	2	1	2
Business services	1	1	-	1
Accommodation	6	9	3	7
Utilities	4	4	-	4
Insurance	4	4	-	3
Legal and inquiry	-	-	-	-
Safety and sustainable development	2	1	(1)	1
Strategic sourcing	1	1	-	1
Business change	-	-	-	1
Other corporate functions	3	-	(3)	2
Core support costs	31	32	1	36
Other support costs				
Asset management services	3	3	-	4
Network Rail telecoms	4	5	1	4
National delivery service	-	1	1	1
Infrastructure Projects	(2)	-	2	(5)
Commercial property	-	-	-	3
Group costs	(5)	(2)	3	14
Total other support costs	-	7	7	21
Total support costs	31	39	8	57
Traction electricity, industry costs and rates				
Traction electricity	42	38	(4)	40
Business rates	14	14	-	13
British transport police costs	7	6	(1)	7
RSSB costs	1	1	-	1
ORR licence fee and railway safety levy	2	2	-	3
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
Total traction electricity, industry costs and rates	66	61	(5)	64
Total network operations expenditure, support costs, traction electricity, industry costs and rates	128	130	2	153

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

in £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are generally in line with the regulator's assumptions and the prior year. Staff costs were lower than planned due to control of recruitment but this was offset by higher variable staff costs (such as overtime and rest days) to compensate for the headcount shortfall. In addition, temporary staff were employed to work on the international platforms during the year.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (5) Human Resources - costs are noticeably lower than the determination and the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Further breakdown of HR costs can be found in Statement 7b.
- (6) Other corporate functions – costs are in line with the prior year and mostly consist of Route Services and Route Asset Management costs. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or did not expect the same level of organisational requirement. The savings compared to the PR13 in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b.
- (7) Group – Group costs include various non-recurring transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.

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

in £m 2014-15 prices unless stated

- (8) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. This group of costs is generally in line with the previous year but higher than the regulator expected mostly due to higher electricity charges and British Transport Police costs.
- (9) Traction electricity – costs are in line with the prior year but significantly higher than the determination. Network Rail has limited ability to influence traction electricity costs which are driven by the prevailing market rates of these utilities. Most of these electricity costs are passed on to train and freight operators (refer to Statement 6a). Costs in the financial year are higher than the determination due to different assumptions made by the ORR regarding electricity rates. This is reflected in Statement 6a where Traction electricity charges income (arising from the on-charge of electricity costs to train operators) are also higher than the Regulator assumed.
- (10) British transport police costs - costs in the year are higher than the determination. This is partly due to the CP4 exit rates where BTP costs were noticeably higher than the regulator assumed when preparing their CP5 determination. As the vast majority of BTP costs are fixed it is difficult for Network Rail to reduce costs without reducing the level of service provided as such cuts could endanger the travelling public. Given that the regulator assumes a reduction in these costs each year of the control period, it is likely that Network Rail will be unwilling to compromise passenger safety to these levels and will overspend against the determination throughout the control period.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Wessex (unaudited)

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	15	18
Operations and customer services non-signalling	-	-
MOMS	2	1
Control	3	2
Planning & Performance Staff Costs	2	4
Managed Stations Staff Costs	1	1
Operations Management Staff Costs	1	3
Other	8	3
Total operations & customer services costs	32	32
Total Network Operations	32	32
Support		
Human resources		
Functional support	3	-
Training (inc Westwood)	2	1
Graduates	-	-
Apprenticeships	1	1
Other	-	-
Total human resources	6	2
Information management		
Support	1	1
Projects	-	-
Licences	-	-
Business operations	4	4
Other	-	-
Total information management	5	5
Finance	2	1
Business Change	-	-
Contracts & procurement	1	-
Strategic Sourcing (National Supply Chain)	-	1
Planning & development	1	1
Safety & compliance	1	-
Other corporate services	5	1
Commercial property	10	6
Infrastructure Projects	(5)	(2)
Route Services	1	2
Asset management & Engineering/Asset heads	12	-
National delivery service	-	-
Utilities	-	4
Network Rail telecoms	-	4
Digital Railway	-	1
Safety Technical & Engineering	-	3
Government & Corporate Affairs	-	1
Business Services	-	1
Route Asset Management	-	1
Legal and inquiry	-	-
Group/central	-	-
Pensions	-	-
Insurance	3	4
Redundancy/reorganisation costs	6	1
Staff incentives/Bonus Reduction	-	(2)
Accommodation & Support Recharges	-	(2)
ORR financial penalty	8	(2)
Other	-	-
Total group/central costs	17	(1)
Total support	56	31
Total network operations and support costs	88	63

Statement 7b: Analysis of network operations expenditure and support costs by activity, Wessex (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	40	38	(2)	40
Signalling	15	13	(2)	14
Civils	8	10	2	8
Buildings	-	5	5	-
Electrical power and fixed plant	6	5	(1)	5
Telecoms	2	2	-	2
Other network operations	21	14	(7)	12
Asset management services	3	3	-	3
National Delivery Service	-	4	4	1
Property	-	1	1	1
Group	(1)	(2)	(1)	(2)
Total maintenance expenditure	94	93	(1)	84

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

in £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are higher than the determination and the prior year. This was a combination of higher investment in programmes to improve the safety and performance of the network. A significant amount was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – as noted above, the costs of National Delivery Services are now borne by the beneficiary of these services which has resulted in higher track maintenance costs compared to the determination (with a saving in the National Delivery Services heading). Also, the Regulator's CP5 determination assumed that track maintenance costs at the end of CP4 would be lower than they were. Therefore, Network Rail was planning to have higher track maintenance costs than the PR13 even if National Delivery Services were not off-charged. Costs are in line with the previous year, which also included a full off-charge of National Delivery Services activities, despite an increase in network traffic (and so wear and tear on the network) compared to CP4.
- (4) Buildings – the variance to the determination is largely due to Reactive maintenance activity which is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance relating to Reactive maintenance has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (5) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category and is the largest contributor to the spend being higher than the regulator's assumption in 2014/15. Costs are noticeably higher than 2013/14 which is a combination of the investment in the programmes noted above and a significant increase in the asset management organisation within the routes. As part of the move towards a devolved, more accountable railway the capabilities and responsibilities of the local asset management teams have increased significantly since 2013/14, as planned in Network Rail's plans for CP5, and reflected in the expenditure allowances set by the regulator.

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

in £m 2014-15 prices unless stated

- (6) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The small credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided.

Statement 9a: Summary analysis of renewals expenditure, Wessex

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	83	71	(12)	101
Signalling	46	46	-	43
Civils	51	35	(16)	44
Buildings	20	19	(1)	18
Electrical power and fixed plant	16	24	8	42
Telecoms	6	5	(1)	15
Wheeled plant and machinery	6	15	9	4
Information Technology	14	8	(6)	9
Property	-	3	3	9
Other renewals	60	(17)	(77)	30
Total renewals expenditure	302	209	(93)	315

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

in £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – track costs are higher than the regulator assumed which is mostly due to efficient overspends partly offset by deferral of activities to future years. Network Rail planned expenditure this year expected an overspend by around £20m on a like for like basis. This higher underlying cost was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual underlying costs were higher than Network Rail planned partly due to contractor dispute issues (partly as a result of productivity problems arising from rationalising the supplier base) and lower than expected efficiencies from high output plant (arising from machinery failures and unforeseen problems of using this new delivery method on parts of the network with third rail). Track financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years which was partly attributable to contractor change and the transitional problems of working with a new deliverer, High output failures and re-phasing of S&C activity into future years. Expenditure was lower than the previous year mainly a result of lower volumes delivered in the current year. In CP4 a great deal of track activity was delivered towards the end of the five-year period.
- (3) Signalling – overall, expenditure was in line with what the determination expected. However, this was made up of deferral of activity offset by higher than expected costs on a like for like basis. These extra costs included increases in the expected total costs of some large multi-year re-signalling projects including completing some control period 4 projects for which the regulator has not provided any funding. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). Expenditure is generally in line with the previous year.

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

in £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spend more on civils this year than the regulatory assumption. Earthworks expenditure is higher than the regulator's assumption due to increased amounts of emergency works. Weather events between October 2014 and March 2015 have necessitated additional activity to maintain network capability.
- (5) Electrical power and fixed plant – expenditure in the year was lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant and SCADA as Network Rail seeks to find optimal delivery strategies for these programmes. The SCADA activity planned for CP4 did not materialise and so ORR has provided a rollover of funding for this programme (the costs are included in the CP4 rollover category) but delays in design have meant that the CP4 element of the funding has not yet been exhausted, much less the PR13 allowances. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Renewals costs were much lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (6) Telecoms – expenditure in the year was slightly above the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. The largest contributor to the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements.
- (7) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5). Expenditure is higher than the previous year due to additional High output plant purchases and increased spend on Intervention items.
- (8) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.
- (9) Other renewals
 - a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, although there has been spend on ORBIS this year, as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.

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

in £m 2014-15 prices unless stated

- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- d. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN, ORBIS (as noted above), electrification programmes and construction of Basingstoke campus. Expenditure in some of these areas has been higher than the amount the regulator assumed (FTN, Basingstoke campus) and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

Statement 9b: Detailed analysis of renewals expenditure, Wessex (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	27	29	2
High output renewal	13	4	(9)
Plain line refurbishment	8	-	(8)
S&C renewal	26	23	(3)
S&C refurbishment	2	2	-
Track non-volume	1	6	5
Off track	6	7	1
Total track	83	71	(12)
Signalling			
Full conventional resignalling	23	4	(19)
Modular resignalling	-	1	1
ERTMS resignalling	-	-	-
Partial conventional resignalling	1	1	-
Targeted component renewal	-	-	-
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	-	-	-
Operating strategy other capital expenditure	7	16	9
Level crossings	8	8	-
Minor works	6	14	8
Centrally managed costs	1	2	1
Total signalling	46	46	-
Civils			
Underbridges	16	16	-
Overbridges	2	1	(1)
Bridgeguard 3	-	-	-
Major structures	1	-	(1)
Tunnels	5	2	(3)
Other assets	7	4	(3)
Structures other	6	6	-
Earthworks	14	6	(8)
Other	-	-	-
Total civils	51	35	(16)
Buildings			
Managed stations	-	4	4
Franchised stations	15	13	(2)
Light maint depots	1	-	(1)
Depot plant	-	-	-
Lineside buildings	2	1	(1)
MDU buildings	-	-	-
NDS depots	2	1	(1)
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	20	19	(1)

Statement 9b: Detailed analysis of renewals expenditure, Wessex (unaudited) - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	-	-	-
Overhead Line	-	-	-
DC distribution	11	6	(5)
Conductor rail	1	4	3
SCADA	-	4	4
Energy efficiency	-	-	-
System capability / capacity	-	3	3
Other electrical power	3	1	(2)
Fixed plant and rail heating	1	6	5
Total electrical power and plant	16	24	8
Telecoms			
Operational communications	-	-	-
Network	-	1	1
SISS	-	2	2
Projects and other	-	-	-
Non-route capital expenditure	6	2	(4)
Total telecoms	6	5	(1)
Wheeled plant and machinery			
High output	2	7	5
Incident response	-	-	-
Infrastructure monitoring	-	-	-
Intervention	1	3	2
Materials delivery	2	-	(2)
On track plant	-	1	1
Seasonal	-	3	3
Locomotives	-	-	-
Fleet support plant	-	1	1
Road vehicles	1	-	(1)
S&C delivery	-	-	-
Total wheeled plant and machinery	6	15	9
Information Technology			
IM delivered renewals	13	7	(6)
Traffic management	1	1	-
Total information technology	14	8	(6)
Property			
MDUs/offices	-	2	2
Commercial estate	-	1	1
Corporate services	-	-	-
Total property	-	3	3
Other renewals			
Asset information strategy	1	6	5
Intelligent infrastructure	1	1	-
Faster isolations	1	3	2
LOWS	-	-	-
Small plant	-	1	1
Research and development	-	-	-
Phasing overlay	-	(28)	(28)
Engineering innovation fund	-	-	-
CP4 rollover	57	-	(57)
Other	-	-	-
West Coast	-	-	-
Total other renewals	60	(17)	(77)
Total renewals	302	209	(93)

Statement 9b: Detailed analysis of renewals expenditure, Wessex (unaudited) – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Wessex

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	21	14	(7)	15
Access charge supplement Income	(15)	(15)	-	(15)
Net (income)/cost	6	(1)	(7)	-
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	19	1	(18)	26
Access charge supplement Income	-	-	-	-
Net (income)/cost	19	1	(18)	26

B) Opex memorandum account

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

D) Net income / (costs) from alliances:

	2014-15	2013-14
Payment from South West Trains	1	1
Total alliance income	1	1
Payment to South West Trains	(2)	(4)
Total alliance costs	(2)	(4)
Net alliance income / (cost)	(1)	(3)

Statement 10: Other information, Wessex – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are higher than the determination which is due to a combination of higher than expected possession costs and acceleration of activity from future years. When Network Rail measures its financial performance it does not take into account savings or additional expenditure generated by renewal activity re-profiling (refer to Statement 5). Costs in the year suffered from under accruing expected possession costs for 2013/14 track works. Also, the work undertaken around Wimbledon was much more expensive than the hypothetical rates in the Schedule 4 model. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the in year cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2014/15. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2014/15 unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the year, with the majority of delay minutes being associated with infrastructure failures but also fatalities and other network trespasses which were higher than expected. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the in year cost cannot be compared to the 2013/14 number in a meaningful way.
- (3) The opex memorandum currently shows a minor net cost. This means that Network Rail's income in the PR18 will be adjusted to reflect this subject to the regulator's overall funding decisions for CP6.

Statement 12: Volume incentives, Wessex

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year	2013-14 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	-	-	27	27	0.5%	1.46	pence per passenger train mile
Passenger farebox (millions)	5	1	1,060	999	2.1%	2.5%	% of additional farebox revenue
Freight train miles (millions)	-	-	1	1	1.9%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	1	-	742	674	2.9%	2.50	pence per freight 1,000 gross tonne mile
Total volume incentive	6	1					

The cumulative volume incentive is determined by the formula: $VI_t = (A_t - (B_{t-1} \times (1 + C_t))) \times D \times 5$

Where:

A_t = Actual in year quantity

B = 2014-15 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Wessex – continued

in £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £1m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Wessex

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	7,140	399	2,849	-	2,849	753	-	354	n/a
MNT005	Plain Line Stoneblowing (km)	km	18,455	44	812	-	812	168	-	124	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	114	1,040	119	-	119	725	-	(315)	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	75	2,294	173	-	173	1,430	-	(864)	n/a
MNT007	S&C Tamping (point end)	Point end	1,784	430	767	-	767	396	-	(34)	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	437	988	432	-	432	1,104	-	116	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	103	14,667	1,516	-	1,516	8,685	-	(5,982)	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	1,091	175	191	-	191	253	-	78	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	4	144,993	549	-	549	127,000	-	(17,993)	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	15	24,742	382	-	382	80,000	-	55,258	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	7	274,606	1,921	-	1,921	79,982	-	(194,624)	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	9	23,095	211	-	211	36,300	-	13,205	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	16,695	82	1,369	-	1,369	79	-	(3)	n/a
MNT122	S&C Maintenance (point end)	Point end	52	18,127	943	-	943	25,312	-	7,185	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	14,905	95	1,416	-	1,416	88	-	(7)	n/a
MNT124	S&C Stoneblowing (point end)	Point end	10,407	27	281	-	281	120	-	93	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	120	-	-	-	420	-	300	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	60	-	-	-	230	-	170	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	14	48,741	690	-	690	55,245	-	6,504	n/a
MNT073	Drainage (Yard)	Yard	4	54,186	234	-	234	144,085	-	89,899	n/a
MNT075	LX Management - Off Track (Each)	Each	345	466	161	-	161	1,399	-	933	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	57	4,728	270	-	270	9,888	-	5,160	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	1,000	2	2	-	2	2,204	-	2,202	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	5	872,906	4,638	-	4,638	361,388	-	(511,518)	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	37	4,272	157	-	157	47	-	(4,225)	n/a
N/A	Non volume track and off-track maintenance	£m				20,354	20,354				n/a
Total track and off-track maintenance					20,083	20,354	40,437		37,647		(2,790)
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				14,993	14,993			-	n/a
Total signalling maintenance						14,993	14,993		12,628		(2,365)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Wessex - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	3,329	-	-	-	3,605	-	276	n/a
MNT221	Detailed Examinations	No.	-	444	-	-	-	614	-	170	n/a
MNT222	Underwater Examination	No.	-	238	-	-	-	85	-	(153)	n/a
MNT223	Ancillary Structure examination	No. detailed	-	9	-	-	-	3	-	(6)	n/a
MNT224	Hidden critical element examinations	No.	-	-	-	-	-	102	-	102	n/a
MNT225	Load carrying assessment	No. spans	-	729	-	-	-	729	-	-	n/a
MNT226a	Visual Examinations (Civils)	No.	-	3,505	-	-	-	4,130	-	625	n/a
N/A	Non volume civils maintenance	£m				7,629	7,629			-	n/a
Total civils maintenance						7,629	7,629		10,159		2,530
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	177	-	-	-	1,173	-	996	n/a
MNT227	5 yearly examinations	Each	-	49	-	-	-	74	-	25	n/a
N/A	Non volume buildings maintenance	£m				-	-			-	n/a
Total buildings maintenance						-	-		5,110		5,110
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	43	20,573	890	-	890	15,000	-	(5,573)	n/a
MNT209	Maintain DC Traction Power Supplies	Each	159	8,713	1,382	-	1,382	7,560	-	(1,153)	n/a
MNT211	Maintain OHL Components	Various	315	111	35	-	35	-	-	(111)	n/a
MNT212	Maintain Points Heating	Each	32	11,580	370	-	370	13,205	-	1,625	n/a
MNT213	Maintain Signalling Power Supplies	Number	103	233	24	-	24	1,199	-	966	n/a
N/A	Non volume electrical power and fixed plant maintenance	£m				3,535	3,535			-	n/a
Total electrical power and fixed plant maintenance						2,701	3,535		4,764		(1,472)
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				1,908	1,908			-	n/a
Total telecoms maintenance						1,908	1,908		1,581		(327)
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				20,503	20,503			-	n/a
Total other network operations maintenance						20,503	20,503		13,868	-	(6,635)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Wessex - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				2,703	2,703			-	n/a
Total asset management services maintenance						2,703	2,703		3,195		492
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(469)	(469)			-	n/a
Total national delivery service maintenance						(469)	(469)		4,051		4,520
Property maintenance											
N/A	Non volume property maintenance	£m				1,055	1,055			-	n/a
Total property maintenance						1,055	1,055		655		(400)
Group maintenance											
N/A	Non volume group maintenance	£m				(1,309)	(1,309)			-	n/a
Total group maintenance						(1,309)	(1,309)		(1,585)		(276)
Total							93,686		92,073		(1,613)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Wessex – continued

in £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	ckm	475	101	48	-	48	533	92	49	-	49	57	(9)	1	-	1
	Conventional		458	59	27	-	27	635	63	40	-	40	177	4	13	-	13
	High Output		448	29	13	-	13	333	24	8	-	8	(115)	(5)	(5)	-	(5)
	Refurbishment		615	13	8	-	8	200	5	1	-	1	(415)	(8)	(7)	-	(7)
	S&C	point enc	549	51	28	-	28	315	92	29	-	29	(234)	41	1	-	1
	Track Drainage		3	670	2	-	2	0	27,100	5	-	5	(3)	26,430	3	-	3
	Renewal	lm	-	-	-	-	-	-	1,000	-	-	-	-	1,000	-	-	-
	Refurbishment	lm	-	670	-	-	-	-	26,000	-	-	-	-	25,330	-	-	-
	New Build	lm	-	-	-	-	-	-	100	-	-	-	-	100	-	-	-
	Fencing		40	25	1	-	1	54	37	2	-	2	14	12	1	-	1
	Slab Track		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Off track		-	-	-	4	4	(4)	-	-	4	4	(4)	-	-	-	-
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				79	4	83			85	4	89			6	-	6
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	24	n/a	n/a	n/a	-	5	n/a	n/a	n/a	-	(19)
	Full conventional resignalling	SEU	215	107	23	-	23	43	93	4	-	4	(172)	(14)	(19)	-	(19)
	Modular resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ERTMS resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Partial conventional resignalling	SEU	-	-	1	-	1	-	-	1	-	1	-	-	-	-	-
	Targeted component renewal	SEU	-	-	-	-	-	-	1	-	-	-	-	1	-	-	-
	Level crossings	No.	1,600	5	8	-	8	1,000	10	10	-	10	(600)	5	2	-	2
	Signalling other		-	-	-	14	14	-	-	-	26	26	-	-	-	12	12
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Operating strategy other capex		n/a	n/a	n/a	7	7	n/a	n/a	n/a	16	16	n/a	n/a	n/a	9	9
	Minor works		n/a	n/a	n/a	6	6	n/a	n/a	n/a	8	8	n/a	n/a	n/a	2	2
	Centrally managed costs		n/a	n/a	n/a	1	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	1	1
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				32	14	46			15	26	41			(17)	12	(5)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	24	n/a	n/a	n/a	-	22	n/a	n/a	n/a	-	(2)
	Underbridges	m2	2	7,511	16	-	16	1	7,472	18	-	18	(1)	(39)	2	-	2
	Overbridges (incl BG3)	m2	11	183	2	-	2	3	77	2	-	2	(7)	(106)	-	-	-
	Tunnels	m2	4	1,127	5	-	5	1	1,768	2	-	2	(3)	641	(3)	-	(3)
	Major structures	m2	-	-	-	1	1	-	-	-	-	-	-	-	-	(1)	(1)
	Other structures assets		n/a	n/a	n/a	-	7	n/a	n/a	n/a	-	4	n/a	n/a	n/a	-	(3)
	Culverts	m2	24	41	1	-	1	-	423	-	-	-	(24)	382	(1)	-	(1)
	Footbridges	m2	9	113	1	-	1	5	199	1	-	1	(4)	86	-	-	-
	Coastal & Estuary Defences	m	-	-	1	-	1	-	-	-	-	-	-	-	(1)	-	(1)
	Retaining Walls	m2	16	248	4	-	4	10	302	3	-	3	(6)	54	(1)	-	(1)
	Earthworks	5-chain	164	73	12	-	12	29	162	6	-	6	(135)	89	(6)	-	(6)
	EW Drainage		1	1,625	2	-	2	-	8,272	1	-	1	(1)	6,647	(1)	-	(1)
	Renewal	lm	-	225	-	-	-	-	308	-	-	-	-	83	-	-	-
	Refurbishment	lm	-	-	-	-	-	-	60	-	-	-	-	60	-	-	-
	Maintenance	lm	-	-	-	-	-	-	2,621	-	-	-	-	2,621	-	-	-
	New Build	lm	-	1,400	-	-	-	-	5,283	-	-	-	-	3,883	-	-	-
	Structures other		-	-	-	6	6	-	-	-	3	3	-	n/a	-	(3)	(3)
	Other		-	-	-	-	-	-	-	-	(5)	(5)	-	n/a	-	(5)	(5)
	Total				44	7	51			33	(2)	31			(11)	(9)	(20)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	15	n/a	n/a	n/a	-	18	n/a	n/a	n/a	-	3
	Footbridges	m2	-	-	-	-	-	-	120	n/a	n/a	-	n/a	120	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	2	602	1	-	1	-	1,523	n/a	n/a	-	n/a	921	n/a	n/a	-
	Platforms	m2	1	9,313	6	-	6	-	33,608	n/a	n/a	-	n/a	24,295	n/a	n/a	-
	Buildings	m2	-	-	1	-	1	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	1	-	1	-	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Other		-	-	-	6	6	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	4	n/a	n/a	n/a	n/a	4
	Footbridges	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	265	-	-	-	-	4,330	n/a	n/a	-	n/a	4,065	n/a	n/a	-
	Platforms	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Buildings	m2	-	-	-	-	-	-	3,729	n/a	n/a	-	n/a	3,729	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	3	n/a	n/a	-	n/a	3	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		-	-	1	-	1	-	-	-	-	-	n/a	-	n/a	n/a	(1)
	Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Depot Shed	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lineside Buildings	m2	-	-	2	-	2	-	15,180	n/a	n/a	2	n/a	15,180	n/a	n/a	-
	MDU Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	1	n/a	-	n/a	n/a	1
	Depot Plant		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	NDS Depots		-	-	-	2	2	-	-	n/a	n/a	5	n/a	n/a	n/a	n/a	3
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(4)	n/a	n/a	n/a	n/a	(4)
	Total				12	8	20			-	-	26			-	-	6

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Overhead Line Equipment (OLE) Re-wiring	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	111	9	1	-	1	-	12	n/a	n/a	3	n/a	3	n/a	n/a	2
	AC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	11	-	-	n/a	n/a	6	n/a	n/a	n/a	n/a	(5)
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	-	-	1	-	1	-	2	n/a	n/a	-	n/a	2	n/a	n/a	-
	LV Switchgear Renewal	No.	-	-	-	-	-	-	9	n/a	n/a	-	n/a	9	n/a	n/a	-
	LV Cables	km	231	13	3	-	3	-	6	n/a	n/a	-	n/a	(7)	n/a	n/a	-
	Transformer Rectifiers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	7	7	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	1	-	-	n/a	n/a	6	n/a	n/a	n/a	n/a	5
	Signalling Power Cable Renewal	km	-	10	-	-	-	-	6	n/a	n/a	-	n/a	(4)	n/a	n/a	-
	Principle Supply Point Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	31	-	-	-	-	120	n/a	n/a	-	n/a	89	n/a	n/a	-
	SCADA		-	-	-	-	-	-	-	n/a	n/a	4	n/a	n/a	n/a	n/a	4
	Energy efficiency		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	System capability / capacity		-	-	-	-	-	-	-	n/a	n/a	4	n/a	n/a	n/a	n/a	4
	Other electrical power		-	-	-	3	3	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	(2)
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					5	11	16			-	-	24			-	-	8

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	-	-	-	-	-	1	n/a	n/a	n/a	n/a	1
	Customer Information Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Address CCTV	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Operational Comms		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
		No.															
	PABX Concentrator	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Processor Controlled Concentrator	No.															
	Concentrator	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Emergency Telephone System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Network		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	Projects and other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Non route capex		n/a	n/a	n/a	6	6	n/a	n/a	n/a	n/a	4	n/a	n/a	n/a	n/a	(2)
	Total				-	6	6			-	-	6			-	-	-

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

in £m 2014-15 prices unless stated

2014-15																	
		Actual					Network Rail Business Plan					Difference to Business Plan					
Asset	Activity type	Unit	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Wheeled plant and machinery	High output		n/a	n/a	n/a	2	2	n/a	n/a	n/a	7	7	n/a	n/a	n/a	5	5
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2
	Materials delivery		n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)
	On track plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
Total					-	6	6			-	15	15			-	9	9
IT	IM delivered renewals		n/a	n/a	n/a	13	13	n/a	n/a	n/a	12	12	n/a	n/a	n/a	(1)	(1)
	Traffic management		n/a	n/a	n/a	-	1	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	1
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total				-	13	14			-	14	14			-	1	-
Property	MDUs/offices		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Commercial estate		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total				-	-	-			-	3	3			-	3	3
Other renewals	Asset information strategy		n/a	n/a	n/a	1	1	n/a	n/a	n/a	5	5	n/a	n/a	n/a	4	4
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-
	Faster isolations		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2
	LOWs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Small plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	CP4 Rollover		n/a	n/a	n/a	57	57	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(57)	(57)
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Total				-	60	60			-	13	13			-	(47)	(47)
	Total Renewals						302			-		262					(40)
Regulatory Financial Statements Control Period 5 - Year 1 789																	

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

in £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statement 9a.
- (3) Track - Switches & Crossings - Switches & Crossings shortfall is driven by the deferral of the large Switches & Crossings programme at Twickenham until future years due to access and logistics resourcing issues for a job of this scale.
- (4) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (5) Signalling - Full Conventional Resignalling - the workbank is above plan. This is mostly due to the Poole to Wool scheme where the commissioning date was postponed from CP4 and thus not included in the CP5 Business Plan. The programme commissioned (and hence the volumes were recognised) in 2014/15.
- (6) Signalling - Level Crossings - workbank is below plan due to re-profiling to later in the control period.
- (7) Structures - Overbridges - workbank is above plan due to bringing work forward from later in the control period and local management's decision to improve asset condition by delivering extra volumes with the aim of driving punctuality increases.
- (8) Structures - Tunnels - workbank is below plan due to re-profiling to later in the control period. The change in contractor has led to transitional issues as the new contractor and the route work together to understand the requirements.
- (9) Structures - Culverts - workbank is below plan due to re-profiling to later in the control period. The change in contractor has led to transitional issues as the new contractor and the route work together to understand the requirements.
- (10) Structures - Footbridges - workbank is below plan due to re-profiling to later in the control period
- (11) Structures - Retaining Walls - Volumes are below plan due to a number of on-going schemes which were forecast for staged completion and, whilst ongoing, are yet to substantially complete and so no volumes have been recognised in line with the policy agreed with the regulator. Work has been re-profiled within the control period in order to fit with resource availability.
- (12) Earthworks - volumes are below plan in the three core areas of embankments, rock cuttings and soil cuttings. The key drivers for these variances are delays associated with the finalisation of framework contracts (as noted above), the impact of resource and deliverability restrictions and the prioritisation of emergency works.

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

in £m 2014-15 prices unless stated

- (13)Buildings - Franchised Stations - within the workbank there has been significant movement across the majority of the portfolio this year. This is as a result of both Vauxhall and Queens Town Road being deferred due to access restrictions and resource constraints.
- (14)Buildings - Managed Stations - across the portfolio there is large amount of deviation in volume terms. There has been a deferral of works at Waterloo in order to align with enhancement works which are planned on and around the station later in the control period. Combining these work programmes reduces passenger disruption and results in cost efficiencies.
- (15)Electrification - Conductor Rails - Volumes are down compared to Network Rail's published CP5 Business Plan as the result of re-profiling undertaken respectively, to manage delivery within the confines of the wider route delivery strategy and in line with possession availability. Also, additional focus and resource has been dedicated to completing CP4 Electrification programmes at the expense of planned CP5 volumes.
- (16)Electrification - Points Heaters - Volumes are below Network Rail's published CP5 Business Plan. This is due to the change in delivery strategy which has led to re-profiling to later in the control period. Also, additional focus and resource has been dedicated to completing CP4 Electrification programmes at the expense of planned CP5 volumes. The volumes recognised in 2014/15 largely relate to CP4 projects.

Statement 1: Summary regulatory financial performance, Western

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference	2013-14 Actual
Income				
Grant Income	398	396	2	405
Fixed Income	37	36	1	122
Variable Income	90	91	(1)	79
Other Single Till Income	89	112	(23)	69
Opex memorandum account	-	-	-	-
Total Income	614	635	(21)	675
Operating expenditure				
Network operations	39	31	(8)	28
Support costs	40	44	4	56
Traction electricity, industry costs and rates	24	25	1	23
Network maintenance	116	114	(2)	107
Schedule 4	26	20	(6)	21
Schedule 8	18	1	(17)	39
Total operating expenditure	263	235	(28)	274
Capital expenditure				
Renewals	333	357	24	384
PR13 enhancement expenditure	604	611	7	151
Non PR13 enhancement expenditure	42	-	(42)	514
Total capital expenditure	979	968	(11)	1,049
Other expenditure				
Financing costs	140	166	26	138
Corporation tax (received)/paid	(1)	-	1	(1)
Rebates	-	-	-	13
Total other expenditure	139	166	27	150
Total expenditure	1,381	1,369	(12)	1,473

Statement 1: Summary regulatory financial performance, Western - continued

In £m 2014-15 prices unless stated

Comments:

- (1) This schedule provides a summary of Network Rail's income and expenditure during the year compared to the regulatory determination and the prior year. Greater detail and insight is provided elsewhere in this document.
- (2) Income - Grant income in the year was slightly higher than the determination due to favourable inflation movements. This is discussed in more detail in Statement 6a.
- (3) Income – Fixed income in the year was in line with the determination. This is discussed in more detail in Statement 6a.
- (4) Income – Variable income in the year was broadly in line with the determination. This is discussed in more detail in Statement 6a.
- (5) Income – Other single till income in the year is lower than the determination due to changes in the method of funding borrowing costs associated with the Crossrail programme with a corresponding adjustment in Financing costs. Excluding this, income is higher than the determination mostly due to Bristol and Reading stations becoming directly managed by Network Rail which should result in a corresponding increase in Network operations costs. Other single till variances are set out in more detail in Statement 6a.
- (6) Operating expenditure - Network Operations costs are higher than the determination mainly as a result Bristol and Reading stations becoming directly managed by Network Rail rather than leased to train operators. As a result there is additional cost which should be balanced by additional Other single till income. Also, delays in implementing efficiency initiatives have contributed to the variance. These variances are set out in more detail in Statement 7a.
- (7) Operating expenditure - Support Costs are lower than the determination largely as a result of non-recurring items. Underlying costs are in line with the determination. Costs are noticeably lower than the previous year as these were also distorted by some significant one-off costs. These variances are set out in more detail in Statement 7a.
- (8) Operating expenditure - Traction electricity, industry costs and rates are broadly in line with the regulator's assumptions. These variances are set out in more detail in Statement 7a.
- (9) Operating expenditure - Network Maintenance costs are higher than the determination and the previous year which is mostly a result investment in certain programmes to improve safety and performance and management's decision to undertake more maintenance on key parts of the network to drive train performance improvements. The funding for some of this came from the savings made in Support costs. These variances are set out in more detail in Statement 8a.
- (10) Operating expenditure - Schedule 4 costs are higher than the determination due to the delivery of additional activity and higher than expected underlying costs. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (11) Operating expenditure - Schedule 8 costs are higher than the determination because, as planned, train performance did not meet the regulator's targets for the first year of the control period. These variances are set out in more detail in Statement 10. The variance to the prior year is due to changes in the regulatory regime so a comparison is not meaningful.
- (12) Capital expenditure - Renewals expenditure is lower than the determination which is due to deferral of activity offset by efficient overspends. These variances are set out in more detail in Statement 9a.
- (13) Capital expenditure - PR13 Enhancements expenditure is broadly in line with the determination which is due to a re-profiling of programme delivery offset by efficient overspend. These variances are set out in more detail in Statement 3.
- (14) Capital expenditure – non PR13 Enhancements refers to schemes identified after the finalisation of the regulator's CP5 determination. The PR13 did not include any assumption for this type of investment. These items are set out in more detail in Statement 3.
- (15) Other expenditure - Financing costs represents the interest payable in the year including the Financial Indemnity Mechanism (FIM) fee paid to the Department for Transport and accretion on index-linked debt instruments. This is set out in more detail in Statement 4.

Statement 1: Summary regulatory financial performance, Western - continued

In £m 2014-15 prices unless stated

- (16) Other expenditure – Corporation tax - the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.

Statement 2a: RAB - regulatory financial position, Western

in £m 2014-15 prices unless stated otherwise

A) Calculation of the RAB at 31 March 2015

	Actual	PR13	Difference
Opening RAB for the year (2012-13 prices)	4,300	4,300	-
Indexation to 2013-14 prices	114	114	-
Opening RAB for the year (2013-14 prices)	4,414	4,414	-
Indexation for the year	88	88	-
Opening RAB (2014-15 prices)	4,502	4,502	-
Adjustments for the actual capital expenditure outturn in CP4	128	-	128
Renewals	314	357	(43)
PR13 enhancements	597	750	(153)
Non-PR13 enhancements	31	-	31
Total enhancements	628	750	(122)
Amortisation	(219)	(219)	-
Adjustments for under-delivery of regulatory outputs	-	-	-
Closing RAB at 31 March 2015	5,353	5,390	(37)

B) Calculation of the cumulative RAB at 31 March 2015

	2014-15
Opening RAB (2014-15 prices)	4,502
Adjustments for the actual capital expenditure outturn in CP4	128
Renewals	314
PR13 enhancements	597
Non-PR13 enhancements	31
Total enhancements	628
Amortisation	(219)
Adjustments for under-delivery of regulatory outputs	-
Closing RAB	5,353

Statement 2a: RAB - Regulatory financial position, Western - continued

In £m 2014-15 prices unless stated

Note:

- (1) The opening RAB for the year (2012/13 prices) is the value as stated in the PR13 determination and not the value in the 2013/14 Regulatory financial statements. In line with the Regulatory Accounting Guidelines, any difference between the PR13 assumed opening CP5 RAB and the actual CP5 RAB should be noted in the Adjustments to the actual capital expenditure outturn in CP4.

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.
- (2) In accordance with the determination and the regulator's published Regulatory financial statements the RAB is inflated each year using the in year November RPI (so for 2014/15, the November 2014 RPI), which was 1.98 per cent. The Opening RAB assumption in 2012/13 prices is inflated by the November 2013 RPI (2.65 per cent) to derive the Opening RAB in 2013/14 prices.
- (3) Adjustment for the actual capital expenditure outturn in CP4 consists of:
 - a. Additional project expenditure – during the final years of control period 4 Network Rail undertook additional capital expenditure compared to the assumption in the regulator's determination. This additional expenditure was logged up to the RAB in CP4.
 - b. IOPI adjustment (RAB increase) – in CP4, when assessing the level of efficient renewals expenditure eligible for logging up to the RAB, the regulator made an adjustment for IOPI to reflect variances between RPI the impact of increases in construction input prices. The IOPI index data was published after the 2013/14 Regulatory financial statements had been finalised with only provisional data available. Now that the index has been updated the CP4 closing RAB has been updated.
- (4) Renewals – renewals added to the RAB was lower than the regulator assumed. This was mostly due to a deferral of activity but also some efficient overspends (the value of which cannot all be logged up to the RAB). The variances to the regulator's assumptions are explained in more detail in Statement 2b.
- (5) PR13 enhancements – enhancements added to the RAB are £153m lower than the regulator's expectation. This was mainly due to a change in funding enacted by the DfT which reclassified £155m of expenditure on GW Electrification and Reading station area redevelopment from PR13 funded to PAYGO. This is not reflected in the PR13 targets. Other than this adjustment, amounts added to the RAB are broadly in line with the regulatory assumption.
- (6) Non-PR13 enhancements – the regulator sets out the enhancement programmes that it expects Network Rail to deliver as part of the process of setting the five-year control period settlement. However, there are additional projects which will emerge which can be logged up to the RAB through the regulator's investment framework. The regulator does not make an assumption for these when setting RAB or debt targets in its determination.
- (7) Adjustments for under-delivery of regulatory outputs – the ORR will make adjustments to the RAB for certain missed regulatory outputs. Whilst Network Rail has missed train performance targets in the current year the regulator has not yet made any indication whether it will adjust the RAB for this in relation to the 31 March 2015 position.

Statement 2b: RAB - reconciliation of expenditure, Western

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Renewals	
Renewals per the PR13 determination	357
Adjustments to the PR13 determination	
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	21
Capitalised financing on CP4 deferrals	1
Other adjustments	-
Capitalised financing on other adjustments	-
Adjusted PR13 determination (renewals)	379
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(115)
Capitalised financing on acceleration / (deferrals) of expenditure	(3)
Adjustments for efficient overspend	64
Capitalised financing on efficient overspend	1
25% retention of efficient overspend	(16)
Capitalised financing on efficient overspend 25% retention	(1)
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing on efficient underspend 25% retention	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments for efficient overspend through spend to save framework	6
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other adjustments	-
Capitalised financing on other adjustments	-
Total Renewals (added to the RAB - see Statement 2a)	314
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	2
Adjustment for retention of efficient overspend (including spend to save adjustment)	17
Adjustment for retention of efficient underspend	-
Other adjustments	-
Total actual renewals expenditure (see statement 9)	333

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

in £m 2014-15 prices unless stated

	Total as at 31/03/15
Enhancements	
Enhancements per the PR13 determination	750
Adjustments to the PR13 determination	-
Renewals / enhancement reallocation	-
Capitalised financing on reallocations	-
CP4 deferrals to CP5	1
Capitalised financing on CP4 deferrals	-
ECAM adjustments	-
Capitalised financing on ECAM adjustments	-
Adjustments to DfT funding	(155)
Capitalised financing on adjustments to DfT funding	(3)
Other adjustments	25
Capitalised financing on other adjustments	1
Adjusted PR13 determination (enhancements)	619
Adjustments in accordance with the PR13 RAB roll forward policy	
Adjustments for acceleration / (deferral) of expenditure within CP5	(34)
Capitalised financing on acceleration / (deferrals) of expenditure	(1)
Adjustments for efficient overspend	16
Capitalised financing on efficient overspend	1
25% retention of efficient overspend	(4)
Capitalised financing of 25% efficient overspend	-
Adjustments for efficient underspend	-
Capitalised financing on efficient underspend	-
25% retention of efficient underspend	-
Capitalised financing of 25% efficient underspend	-
Adjustments for underspend that is not deemed efficient	-
Capitalised financing relating to underspend that is not deemed efficient	-
Adjustments relating to projects with tailored protocols or fixed price agreements	-
Adjustments for efficient overspend relating to projects with tailored protocols or fixed price agreements - retention of efficient overspend	-
Capitalised financing relating to projects with tailored protocols or fixed price	-
Adjustments for efficient overspend through spend to save framework	1
Capitalised financing on efficient overspend through spend to save framework	-
20% retention of efficient overspend through spend to save framework	(1)
Capitalised financing on efficient overspend through spend to save framework 20% retention	-
Other Adjustments	-
Capitalised financing on other adjustments	-
Total PR13 enhancements (added to the RAB - see statement 2a)	597
Non PR13 Enhancements	
Non-PR13 enhancements expenditure qualifying for capitalised financing	41
Non-PR13 enhancements expenditure qualifying for capitalised financing - retention of efficient overspend	(11)
Capitalised financing on non-PR13 enhancements expenditure	1
Non-PR13 enhancements expenditure not qualifying for capitalised financing	-
Non-PR13 enhancements expenditure not qualifying for capitalised financing - retention of efficient overspend	-
Other adjustments	-
Adjustments for amortisation of non-PR13 enhancements	-
Total non PR13 enhancements (added to the RAB - see statement 2a)	31
Total enhancements (added to the RAB - see statement 2a)	628
Adjustment for manifestly inefficient overspend	-
Adjustment for capitalised financing	1
Adjustment for retention of efficient overspend (including spend to save adjustment)	16
Other adjustments (including discretionary investment)	1
Adjustment for retention of efficient underspend	-
Non-PR13 enhancement expenditure	
Third party funded schemes	213
Other adjustments	-
Total actual enhancement expenditure (see statement 3)	859

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

In £m 2014-15 prices unless stated

Comments:

- (1) This schedule shows a reconciliation of the renewals and enhancements expenditure for inclusion in the Regulatory Asset Base (RAB) (refer to Statement 2a) compared to that assumed in the PR13. The RAB value is considered to be provisional until an ex-post assessment has been completed by the Regulator after the end of the control period.
- (2) In accordance with the Regulatory Accounting Guidelines April 2014, adjustments for capitalised financing are made to each category of variance to the PR13. This is to improve transparency and to allow the reader to understand the full impact of these variances (as the financial impact to the RAB includes any adjustment for capitalised financing).
- (3) Renewals – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted. The amount of funding given for these programmes is substantially less than it will cost Network Rail to deliver, resulting in financial underperformance which is reflected in the Adjustment for efficient overspend heading.
- (4) Renewals - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.
- (5) Renewals – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (6) Renewals - 25 % retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (7) Renewals - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in operating costs savings in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers expenditure on IT, Plant & machinery and commercial property estate over and above the allowances in the determination. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will save the other 20 per cent of the expense in its operating costs during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (8) Renewals - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (9) Enhancements – CP4 deferrals to CP5 – a number of projects that the regulator assumed would be finished in CP4 were still in flight at 31 March 2014. The regulator and Network Rail have agreed a list of these projects with specific values for which the PR13 allowance is adjusted.
- (10) Enhancements – Adjustments to DfT funding – the DfT have decided to change the funding of parts of the GW Electrification and Reading station area redevelopment programmes from RAB funded to PAYGO, this reducing the amount of investment added to the RAB.
- (11) Enhancements - Adjustments for acceleration / (deferral) of expenditure within CP5 – the regulator assumed a certain profile of expenditure in the control period in their PR13. However, Network Rail intends to deliver the required outputs in a different manner. Therefore, the amounts to be added to the RAB should be adjusted for the level of work actually undertaken in the current year rather than the assumed level of activity.

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

In £m 2014-15 prices unless stated

- (12) Enhancements – Adjustments for efficient overspend – under the terms of the Regulatory Accounting Guidelines April 2014, Network Rail retains 25 per cent of any efficient overspend. This means that, provided the expenditure is not manifestly inefficient (as defined by the Regulatory Accounting Guidelines April 2014) Network Rail can add 75 per cent of the overspend to the RAB. The value included in this adjustment represents the full 100 per cent value of the additional expenditure.
- (13) Enhancements - 25% retention of efficient overspend – following on from the above comment, this heading represents the 25 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (14) Enhancements - Adjustments for efficient overspend through spend to save framework – in control period 5, the regulator has created a set of rules for capital investment undertaken by Network Rail which will result in extra income in the future: the spend to save framework. The Regulatory Accounting Guidelines April 2014 provides specific rules about the type of expenditure which qualifies for this category but it largely covers commercial property schemes over and above the allowances in the determination which are expected to generate additional income streams. Under the terms of the spend to save framework only 80 per cent of the expenditure in 2014/15 is eligible for logging up to the RAB (with the assumption that Network Rail will receive the other 20 per cent of the expense through additional income during the remainder of the control period). The value in this heading represents the full 100 per cent value of the additional expenditure.
- (15) Enhancements - 20% retention of efficient overspend through spend to save framework - following on from the above comment, this heading represents the 20 per cent of the overspend that Network Rail retains. This is, therefore, not eligible for logging up to the RAB.
- (16) Non-PR13 enhancements – not all of the enhancement expenditure reported in Statement 3 is eligible for RAB addition. For transparency purposes, Network Rail has disclosed separately the total amount of non-PR13 expenditure and the amount of this spend that is not eligible for RAB addition (including the proportion of investment that is ineligible for RAB addition under the spend to save framework). For non-PR13 enhancements, the investment framework specifies how much can be logged up to the RAB. In this instance, the difference mostly relates to overspends against the investment framework allowance on the Swindon-Kemble programme and spend to save investments.
- (17) Non-PR13 enhancements – Other adjustments (including discretionary investment) - this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition.

Statement 3: Analysis of enhancement capital expenditure, Western

in £m 2014-15 prices unless stated

		2014-15	
	Actual	Adjusted PR13	Difference
Funds			
East coast connectivity	-	-	-
Stations - National Station Improvement Programme (NSIP)	1	3	2
Stations - Access for All (AfA)	3	8	5
Development	2	3	1
Level crossing safety	1	2	1
Passenger journey improvement	-	7	7
The strategic rail freight network	19	11	(8)
Total funds	26	34	8
Committed projects			
Crossrail	317	361	44
GW Electrification (Paddington to Severn JT)	283	198	(85)
Adjustment for DfT funding - GW electrification	(73)	(73)	-
East West Rail (committed scheme)	-	6	6
IEP Programme	11	7	(4)
Bridgend to Swansea electrification	-	-	-
Reading station area redevelopment	108	116	8
Adjustment for DfT funding - Reading station area redevelopment	(82)	(82)	-
Total committed projects	564	533	(31)
Named schemes			
The Electric Spine:			
DfT SoFA amount	-	1	1
Total Electric Spine projects	-	1	1
Thames Valley:			
Acton to Willesden electrification (WCML)	-	7	7
Thames Valley branches	-	2	2
Oxford Station area capacity and station enlargement	4	1	(3)
Total Thames Valley projects	4	10	6
Airports & Ports:			
Western access to London Heathrow Airport	2	6	4
Total airports & Ports	2	6	4
West			
Dr Days to Filton Abbey Wood capacity improvements	3	6	3
Bristol Temple Meads passenger capacity (incl. Digby Wyatt Shed)	-	3	3
Total West	3	9	6
HLOS capacity metric schemes			
West of England DMU capability works	-	5	5
Route gauge Clearance for different EMUs	2	3	1
Total HLOS capacity metric schemes	2	8	6
CP4 Project Rollovers			
Westerleigh Junction - Barnt Green linespeed increase	-	-	-
Station Security	-	-	-
Other CP4 Rollover	-	-	-
Total CP4 rollovers	-	-	-
Other projects			
Seven day railway projects	-	-	-
ERTMS Cab fitment	-	-	-
R&D allowance	-	1	1
Depots and stabling	-	-	-
Income generating property schemes	3	5	2
Other income generating investment framework schemes	-	4	4
Total other projects	3	10	7
Re-profiled expenditure due to programme deferral	-	-	-
Total PR13 funded enhancements (see statement 2b)	604	611	7

Statement 3: Analysis of enhancement capital expenditure, Western - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 Adjusted PR13	Difference
B) Investments not included in PR13			
Government sponsored schemes			
Swindon Kemble Redoubling	24	-	(24)
Western Distribution Network Operator (DNO) Clearance	9	-	(9)
Other government sponsored schemes	5	-	(5)
Total Government sponsored schemes	38	-	(38)
Network Rail spend to save schemes	-	-	-
Other spend to save schemes	2	-	(2)
Total Network Rail spend to save schemes	2	-	(2)
Total Schemes promoted by third parties	1	-	(1)
Discretionary Investment	1	-	(1)
Total non PR13 enhancement expenditure	42	-	(42)
Total Network Rail funded enhancements (see Statement 1)	646	611	(35)
Third Party PAYG	213	-	(213)
Total enhancements (see statement 2b)	859	611	(248)

Statement 3: Analysis of enhancement capital expenditure, Western - continued

In £m 2014-15 prices unless stated

Note:

- (1) The adjusted PR13 values in the above table represent, with the exception of ECAM changes, the regulator's latest expected cost by programme. This is different to the values in the published PR13 (October 2013) and reflects changes such as agreed CP4 programme rollover and funding changes for Great Western Electrification and Reading programmes. However, the PR13 values have not been updated for the outcome of the ECAM process. As many of the enhancement programmes listed below were still at an early planning stage at the time of the determination the regulator set up the ECAM (Enhancements Cost Adjustment Mechanism) process for CP5. This sought to create more accurate programme baselines by including indicative cost baselines for programmes during the earlier stages but then finalising the baseline once the programme is sufficiently advanced and both Network Rail and ORR can have an informed discussion about the expected costs and outputs of the programmes. Network Rail continues to present schemes to the ECAM process as the control period advances, which results in re-set baselines for the purposes of calculating financial outperformance (refer to Statement 5) and the amounts eligible for logging up to the RAB (refer to Statement 2). To date, changes in expected total expenditure of Network Rail in the control period as a result of the ECAM process has not resulted in any changes to the overall level of funding available to Network Rail from DfT for 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 the major projects for which there was an allowance within the PR13. Network Rail also delivered enhancement projects that are not funded by the PR13. These are shown in part B) of this Statement.
- (2) No PR13 comparison has been provided by the ORR for part B) of this Statement as this includes schemes delivered outside the regulatory determination that are included in the RAB in line with the ORR investment framework.
- (3) Third party funded (PAYG) refer to schemes funded by grants received from various bodies rather than from RAB addition.
- (4) Enhancement expenditure in the year was £646m (as shown in Statement 1). This comprises the total enhancement figure in the table above £859m less the PAYG schemes funded by third parties (£213m) with activity on Crossrail and GW Electrification programmes dominating the portfolio.
- (5) PR13 funded schemes - Funds - the PR13 assumed a certain level of activity and investment to improve the overall capability, performance and capacity of the network but which were not linked to a specific output. The regulatory allowances and actual expenditure of these schemes are shown under the Funds section of the above table. Network Rail developed governance and processes for each fund which outlines the criteria projects had to achieve to utilise these funds. As there are no specific outputs attached to these funds any underspend does not get logged up to the RAB and does not contribute to financial outperformance. However any overspend is not eligible for RAB addition and is treated as financial underperformance. Noteworthy variances between expenditure in the year and PR13 assumptions are set out below:
 - (a) Station Improvement (NSIP) - This fund will be used to deliver improvements across Network Rail's station portfolio. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (b) Station Improvement (AFA) - This fund will be used to deliver improvements across Network Rail's station portfolio, building on the accomplishments of CP4 by continuing to improve the accessibility of the station to all members of society. Although savings were made compared to the regulator's allowances in 2014/15 this is due to a difference in the scheduling of when investment activity is expected to occur. Expenditure over the control period is not expected to exceed the regulator's allowances.
 - (c) Passenger journey improvement - This fund will be used to deliver a step change improvement in journey times on key corridors in conjunction with other major capacity and capability improvements with the intent of delivering significant enhanced franchise value. There has been little spend to date on this programme as Network Rail considers the best way to achieve maximum outputs for this funding.

Statement 3: Analysis of enhancement capital expenditure, Western - continued

In £m 2014-15 prices unless stated

- (d) The Strategic rail freight network - The fund should support sustainable rail transport for freight, thereby reducing the supply chain's transport emissions and reducing road congestion. Expenditure in the year was higher than the regulator assumed as work was re-profiled from later years of the control period.
- (6) PR13 funded schemes – Committed Projects - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
 - (a) Crossrail - This project will deliver a new integrated railway route through central London from Maidenhead and Heathrow in the west to Shenfield in the north east and Abbey Wood in the south east. Although expenditure is less than the PR13 this is all due to re-phasing of expenditure in the control period and so does not count as financial outperformance. Actual expenditure in the year is only slightly behind Network Rail's own internal plans.
 - (b) GW electrification - This project will extend the electrification of the Great Western Main Line (GWML) from Maidenhead. Expenditure on the current year was higher than the regulator expected. This is a combination of additional costs and acceleration of activity from future years. The expected costs of this project are higher than the funding settlement set through the ECAM process. As a result Network Rail has recognised financial underperformance (refer to Statement 5a) meaning that not all of the expenditure in the year is eligible for inclusion in the RAB (refer to Statement 2a).
 - (c) East West Rail – The objective of this project is to support economic growth along the line of route, particularly around Milton Keynes and North Buckinghamshire, by providing the capacity for direct rail services between Oxford / Aylesbury and Milton Keynes / Bedford. Expenditure is lower in the year than the PR13 allowance due to re-phasing of activity.
 - (d) IEP Programme - the outputs of this includes infrastructure ready to accept the operation of the Intercity Express train being obtained for the industry under a train service provision contract by the DfT. Although expenditure is lower than the PR13 assumed this is mostly due to re-profiling of the programme delivery to future years. The anticipated costs of the programme exceed the funding available which has resulted in negative FPM being recognised (refer to Statement 5a) and not all of the capital expenditure this year is allowed to be logged up to the RAB (refer to Statement 2a).
 - (e) Reading station area redevelopment – this programme completes the work commenced in CP4 to deliver major capacity, capability and performance across the Reading station area and its approaches. Costs are lower than the determination but no FPM has been recognised yet as there are still some uncertainties about whether these savings can be sustained over the remainder of the programme.
- (7) PR13 funded schemes – named schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
 - (a) Acton to Willesden electrification - this project links the West Coast Mainline with the Great Western Mainline. In line with Network Rail's internal plan there was limited activity on this project in 2014/15. The regulator assumed that this project would start earlier in the control period than Network Rail planned.
- (8) PR13 funded schemes – HLOS capacity metric schemes - the following notable variances between expenditure and PR13 assumptions for the year are set out below:
 - (a) West of England DMU capability works - This project will provide infrastructure capability enhancements to enable operation of cascaded DMUs from the Thames Valley to the West Country. In line with Network Rail's internal plan there was minimal activity on this programme in 2014/15.
- (9) Other projects – this heading captures various sundry enhancement projects. Notable variances to the determination in the year include:
 - (a) R&D allowance – the regulator assumed that Network Rail would invest this fund evenly over the control period. However, Network Rail have spent more slowly in the first year of the control period as it seeks to identify those schemes which will deliver maximum benefit to the industry. The R&D allowance is a new principle for control period 5 so Network Rail is considering the optimal use of this funding allowance

Statement 3: Analysis of enhancement capital expenditure, Western - continued

In £m 2014-15 prices unless stated

- (b) Other income generating investment framework schemes – Network Rail did not undertake any schemes in 2014/15 which met this criterion. Undertaking such schemes requires the demand from the operators to be present along with a suitable business case for the industry.
- (10) The remainder of this statement considers other enhancement projects undertaken by Network Rail which are not funded through the PR13 allowances. This includes activities which are sponsored by third parties and added to the RAB (and ultimately funded through higher track access charges or government grants) as well as those items which are paid for by third parties at the time of construction (PAYGO projects). There are no PR13 equivalent allowances for these programmes. Each project has its own individual funding arrangement as part of the regulator's investment framework. The amount that can be added to the RAB (refer to Statement 2) or recognised as financial performance (refer to Statement 5) depends upon the terms of the individual funding arrangements.
 - (a) Government sponsored – as expected, this is significantly lower than last year. Most of the large programmes funded through this mechanism last year (such as Crossrail, Electrification, and Reading) have specific funding in the PR13 regulatory settlement and so the activity is included in the PR13 section of this statement. Intuitively, towards the end of a control period it would be likely that this level of expenditure would be relatively high as most programmes that emerge during the control period are likely to be funded through this mechanism.
 - (b) Discretionary investment – this relates to expenditure on CP4 level crossing risk reduction fund. This fund was created from Network Rail's financial outperformance in CP4 (as measured through FVA) and, therefore, is outside the scope of financial performance calculations for CP5 (as set out in Statement 5a). As the amount represents a use of outperformance it is not eligible for RAB addition (as set out in Statement 2a).
 - (c) PAYGO – as noted above, this includes elements of the Reading and Great Western Electrification Programme that the DfT has elected to fund in cash to reduce the amount being added to the RAB. This year's costs also include investment on IEP, Crossrail and Reading. The year on year spend in this heading will fluctuate depending upon the works Network Rail are asked to undertake by stakeholders (usually government) in any given year.

Statement 4: Net debt and financial ratios, Western

in £m nominal unless otherwise stated

A) Reconciliation of net debt at 31 March 2015

	Actual	2014-15 PR13	Difference
Opening net debt	3,030	3,012	(18)
Income			
Grant income	(398)	(396)	2
Fixed charges	(37)	(36)	1
Variable charges	(90)	(91)	(1)
Other single till income	(89)	(112)	(23)
Total income	(614)	(635)	(21)
Expenditure			
Network operations	39	31	(8)
Support costs	40	44	4
Traction electricity, industry costs and rates	24	25	1
Network maintenance	116	114	(2)
Schedule 4	26	20	(6)
Schedule 8	18	1	(17)
Renewals	333	357	24
PR13 enhancement	604	747	143
Non-PR13 enhancement	42	-	(42)
Total expenditure	1,242	1,339	97
Financing			
Interest expenditure on nominal debt - FIM covered	50	56	6
Interest expenditure on index linked debt - FIM covered	24	24	-
Expenditure on the FIM	36	38	2
Interest expenditure on government borrowing	9	-	(9)
Interest on cash balances held by Network Rail	(1)	(1)	-
Total interest costs	118	117	(1)
Accretion on index linked debt - FIM covered	22	49	27
Total financing costs	140	166	26
Corporation tax	(1)	-	1
Other	42	57	15
Movement in net debt	809	927	118
Closing net debt	3,839	3,939	100

D) Financial indicators

	2014-15 Actual	2014-15 PR13
Adjusted interest cover ratio (AICR)	1.12	1.54
FFO/interest	2.98	3.41
Net debt/RAB (gearing)	71.8%	73.2%
FFO/debt	9.1%	10.1%
RCF/debt	6.1%	7.1%
Average interest costs by category of debt		
Average interest costs on nominal debt - FIM covered	3.4%	3.1%
Average interest costs on index linked debt - FIM covered (excl. indexation)	1.4%	1.4%
FIM fee in %	1.1%	1.1%
Average interest costs on nominal debt - unsupported	2.9%	n/a

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

In £m nominal unless otherwise stated

Notes:

- (1) Unlike other statements in this document, the information included in Statement 4 is stated in cash prices in accordance with the Regulatory Accounting Guidelines published by ORR in April 2014.

Comments:

- (1) Network Rail does not issue debt for each route. Instead, treasury operations are managed for Great Britain as a whole with debt and interest attributed to each route in line with specified policies which have been agreed with the regulator.
- (2) Network Rail's debt attributable to Western has increased by over £800m during the year. This was expected as the company continues to invest heavily in renewing and improving the railway infrastructure. Like other infrastructure companies Network Rail's business model is based on borrowing money to invest in the asset, with the payback for this investment spread out over future years.
- (3) Total debt at 31 March 2015 is around £100m lower than the regulator assumed. This is mostly due to higher investment in the railway network, higher performance regime costs and higher than assumed opening net debt partly offset by lower than expected interest costs and favourable working capital movements.
- (4) Income variances are shown in more detail in Statement 6a.
- (5) Network operations variances are shown in more detail in Statement 7a.
- (6) Support costs variances are shown in more detail in Statement 7a.
- (7) Traction electricity, industry costs and rates variances are shown in more detail in Statement 7a.
- (8) Network maintenance expenditure variances are shown in more detail in Statement 8a.
- (9) Schedule 4 and Schedule 8 cost variances are shown in more details in Statement 10.
- (10) Renewals expenditure variances are shown in more detail in Statement 9a.
- (11) Enhancements expenditure variances are shown in more detail in Statement 3. The PR13 enhancement allowance in this statement represents the original determination assumptions and, unlike, Statement 3, has not been updated to reflect rollover from CP4 or agreed changes in funding.
- (12) Financing costs – in previous control periods Network Rail issued both nominal debt and RPI-linked debt (accreting debt). For accreting debt items, part of the interest expense is added to the principle value of the debt each year rather than paid to the issuer. As this debt is linked to long-term RPI movements there is a natural economic hedge between the rate at which this debt will increase and the rate at which the railway asset (the RAB – refer to statement 2) will increase. Following a decision made by Office for National Statistics Network Rail has been re-classified as a Central Government Body in the UK National Accounts and Public Sector Finances with effect from 1 September 2014. This is a statistical change driven by new guidance in the European System of National Accounts 2010 (ESA10). Consequently, in line with other public bodies, Network Rail now receives its funding from government and is not permitted to raise finance in the open market. As a result, all new debt issuances (and re-financing of maturing debt issuances) are through DfT. This means that, ceteris paribus, Network Rail's financing costs will be lower than the determination across the control period for all categories of debt except for Interest expenditure on government borrowing, which will be higher than the determination (as the determination assumed there would be £nil government borrowings). Overall, financing costs are lower than the regulator assumed. This is largely due to lower than expected inflation rates which has reduced Network Rail's accretion interest costs as well as reducing the levels of debt going forward.
 - a. Financing costs – interest expenditure on nominal debt – FIM covered – this is lower than the determination assumed which is mainly due to the change in financing arrangements noted above (more debt was borrowed from government rather than the market) which has been partly offset by higher than expected interest rates.

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

In £m nominal unless otherwise stated

- b. Financing costs – Expenditure on the FIM – the FIM (Financial Indemnity Mechanism) means that debt issued through Network Rail's wholly-owned subsidiary (Network Rail Infrastructure Finance) is backed by government in the event of Network Rail defaulting. Under the terms of the agreement with government for this, Network Rail pays a fee of around 1.1 per cent of the value of the debt being guaranteed. Costs this year are lower than planned as Network Rail is now borrowing money directly from government rather than through market issues (as discussed above). The rate Network Rail borrows from the government (refer to Section D) includes a margin to reflect the lost income received by DfT under the FIM arrangements.
- c. Financing costs – Interest expenditure on government borrowings – as noted above, changes in Network Rail's organisational status has meant that debt is borrowed directly from government and thus incurs interest costs. The PR13 assumed that Network Rail would borrow from the market and not from government.
- d. Financing costs- accretion on index linked debt – FIM covered – costs are lower than the regulator assumed. This is partly due to the change in debt issuances since Network Rail's reclassification as a government body (refer to above) but the main reason is the prevailing RPI rates in the market compared to the regulator's assumption. The regulator assumed that RPI in 2014/15 would be 2.75 per cent. However, the applicable RPI rate that drives the accretion costs was approximately 1.2 per cent. There is a natural economic hedge between the accreting debt and the railway network (as measured through the RAB – refer to statement 2) as both increase with RPI. Therefore, the savings experienced here has been offset to some extent by a lower inflationary increase to the RAB valuation.

(13) Corporation tax – the regulator assumed there would be tax costs this year whereas Network Rail received a tax rebate relating to the overpayment of corporation tax in previous years.

(14) Other – this is mostly movements in working capital and so subject to volatility depending upon the timing of payments to suppliers and receipts from customers. The amount in this category was relatively close to the regulator's assumption.

(15) 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 April 2014. ****Retained cash flow (RCF) is defined as FFO minus net interest.

(16) Financial indicators – AICR – a ratio of less than 1 suggests that Network Rail is not generating sufficient cashflows (after taking into account all net running costs including as assumption for steady state renewals) to fund its cash interest expense. As the regulatory target for 2014/15 shows, the regulator expected Network Rail to comfortably cover its interest costs through its trading profits (assuming an assumption for steady state renewals) with any risks to be absorbed through Network Rail's balance sheet reserves (i.e. the profit it has generated in previous control periods). The variance to the regulator's assumption is mostly due to higher than expected performance regime and Network operations costs along with lower facility charge income (relating to changes in the Crossrail funding agreements) partly offset by lower Support costs.

(17) Financing indicators - Debt:RAB ratio – This ratio (gearing ratio) is a regulatory concept which is supposed to act in lieu of market pressures that a privately-owned infrastructure company would face, with a lower ratio suggesting a less risky company). The ratio at the end of 2014/15 is lower than the regulator assumed mostly due to a higher RAB at the start of the control period than the regulator expected. This was despite sub-optimal capital expenditure undertaken in the year. In circumstances where Network Rail spends more on investing in the network than the regulator assumed, these amounts are only eligible for inclusion on the RAB at 75 per cent of the value of the spend. Therefore, in such instances, for every £1m that Network Rail's debt is increasing by, the RAB only increases by £0.75m.

in £m 2014-15 prices unless stated

[illegible]

Statement 5a: Total financial performance, Western - continued

in £m 2014-15 prices unless stated

Breakdown of variance not included in total financial performance - OSTI:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Adjustment for Crossrail finance charge	-	30	(30)	-	30	- (30)
Total variance not included in total financial performance:	-	30	(30)	-	30	- (30)

Breakdown of variance not included in total financial performance - Support costs:	2014-15			Cumulative		
	Actual	Adjusted PR13	Variance not included in total financial performance	Actual	Adjusted PR13	Variance not included in total financial performance
Release of CP4 long distance financial penalty provision	2	-	2	2	-	- 2
Total variance not included in total financial performance:	2	-	2	2	-	- 2

Statement 5a: Total financial performance, Western - continued

In £m 2014-15 prices unless stated

Notes:

- (1) This statement measures Network Rail's financial performance during the current year. This is calculated using the Financial Performance Measure (FPM) which uses a set of principles and guidelines jointly agreed between Network Rail and ORR. This replaces the measures used in the previous control period of Financial Value Added (FVA) and Real Economic Cost Efficiency (REEM). FPM is a more sophisticated measure than previously used as it also seeks to attribute a financial impact to any missed regulatory outputs. The regulator has specified a number of different outputs that Network Rail is obliged to meet in control period 5 and failure to do so will result in reductions to the FPM. The regulator has provided guidance for how missed outputs should be valued but retains discretion on the final outcome.
- (2) When calculating the financial performance on capital investments generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance. Also, certain programmes have specific protocols which defines the proportion of how any under/ over spend is treated when calculating the amount to be logged up to the rolling RAB, which is used to calculate financial performance.
- (3) FPM is calculated for each of the rows in the above table. A major principle of FPM is that no financial under/ out performance should be recognised for any acceleration/ deferral of activity. Therefore, Network Rail may have spent less than the determination but it is not appropriate to claim this as financial outperformance.
- (4) In addition, in order to achieve a fair assessment of how Network Rail have performed during the year it may be necessary to make other adjustments to the simplistic mathematical variance between the PR13 assumptions and actual values, which are included in the Variance not included in total financial performance column. In order to improve transparency, the ORR has requested that Network Rail describe any items included in this column which will be set out below.

Comments – Financial Variances:

- (1) Grant income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (2) Fixed income – the variances that have arisen are due to inflation (considered in more detail in Statement 6a). Therefore, in line with the FPM guidelines no financial outperformance is recorded for such a variance.
- (3) Variable income – There is a small financial underperformance in the year due to a lower than planned capacity charges.
- (4) Other single till income – the regulator's determination assumed that Network Rail would receive income for Crossrail financing charges. The assumption was that external parties would provide funding to Network Rail to cover the borrowing costs incurred by Network Rail to deliver the required infrastructure for these programmes. However, this assumption did not come to pass. Instead, the external parties provided the funding directly to Network Rail resulting in lower income. As Network Rail did not have to borrow from lenders to fund these works it made a saving in interest costs. However, as interest costs are outside the scope of FPM an adjustment is made in Other single till income is made to reflect the neutral impact of changes in the funding arrangements. The outperformance recognised in Other single till income includes additional income arising from the reclassification of Bristol and Reading stations from leased to managed stations. Whilst this reclassification gives Network Rail an opportunity to generate more income it also results in higher operating costs that comes with running these extra stations. Financial outperformance has also been recognised for facility charges were enhanced depot facilities were offered to operators. These additional items of income have been partly offset by lower property sales in the route in 2014/15 compared to the regulatory assumption.

Statement 5a: Total financial performance, Western – continued

In £m 2014-15 prices unless stated

- (5) Opex memorandum account – the opex memorandum account captures a variety of different items including volume incentive, differences between the actual CP4 opex memo and ORR's assumption and allowed variances on certain rates and industry costs. For the purposes of calculating FPM, adjustments have been made to the applicable rates and industry costs variances in order to create an informed view of the cause of financial under/ out performance and, therefore, are excluded from considering FPM in relation to the Opex memorandum account. Differences between the actual CP4 opex memo and ORR's assumption are also excluded as Network Rail has not sought to claim this as outperformance in CP4. This leaves amounts payable under the volume incentive as the only aspect of the Opex memorandum account which influences the FPM this year. Network Rail has responded to the additional customer and public demand for train services and, therefore, records a benefit under this mechanism. The volume incentive is discussed in more detail in Statement 12.
- (6) Network operations – costs are higher than the determination due to delays in implementing efficiency plans and extra costs associated with the reclassification of Bristol and Reading stations from franchised to managed. This means that Network Rail bears the cost of managing the station which should be offset by higher Other single till income.
- (7) Support costs – although costs are the same as the PR13 assumption, an adjustment is still needed in FPM. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the payout, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway in future years (where it will be reported as renewals) this has not been counted as financial outperformance this year. Similarly, when the investment activities occur (which are expected in 2015/16) these will also be omitted from the scope of the FPM calculation to the extent that they match the release of the accrual. FPM has been generated in Support costs this year partly as a result of the board's decision to reduce incentive payouts to senior management. Instead, this money has been re-invested in the railway network through some maintenance programmes designed at improving safety and performance. In addition, in 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than the regulator assumed as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (8) Network maintenance – Maintenance costs are higher than the determination. The main contributor has been the board's decision to increase expenditure on initiatives to remove vegetation near the railway and to tidy the lineside areas. These are expected to deliver performance and safety improvements. This was largely funded through the board's decision to reduce incentive payouts to senior management, the benefit of which is recognised in Support costs.
- (9) Schedule 4 costs – costs were higher than the regulator assumed. Part of this was due to additional activity. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to Schedule 4 so that a fair assessment of financial performance can be made. Underlying costs are higher than the regulator planned as the renewals portfolio delivered in 2014/15 necessitated longer possessions and on the core (and so more expensive) routes compared to the modelled assumptions in the baseline.
- (10) Schedule 8 costs – the additional cost compared to the determination is due to lower than expected train performance partly as a result of worse CP4 outturn. Infrastructure failures on main routes were the cause of this.
- (11) Renewals – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated at an asset category level and set out in more detail in Statement 5b. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail.
- (12) PR13 enhancements – to calculate renewals FPM, adjustments to the PR13 allowance are made to reflect differences in the level of work delivered in the year compared to the PR13 assumptions. This is calculated for each enhancement programme and is set out in more detail in Statement 5c. Generally, 25 per cent of any financial out/ under performance is retained by Network Rail although there are exceptions (such as programmes which have their own protocol arrangements).

Statement 5a: Total financial performance, Western – continued

In £m 2014-15 prices unless stated

- (13) Non PR13 enhancements – the PR13 made no allowance for the level of emerging enhancements projects not included in the original scope of the determination. Therefore, a variance between actual costs and PR13 allowances is expected and, as the control period progresses, it is likely that the size of this variance will increase. Network Rail and ORR have agreed a set of guidelines for how expenditure on non-PR13 enhancements should be treated for the purposes of calculating FPM which depend on the nature of the project. Negative FPM has been recognised in the year with regard to Swindon-Kemble redoubling programme where the expected final costs are higher than the amount the regulator has permitted to be added to the RAB.
- (14) Financing costs – financing costs are lower than the regulator expected mainly due to lower rates as set out in more detail in Statement 4. However, variances in finance costs are outside of the scope of FPM as the regulator feels that Network Rail can only exert minor influence on these costs as the rates are determined by the market.
- (15) Corporation tax – whilst corporation tax variances are within the scope of FPM, it is uncertain that gains made in the current year will continue throughout the control period. Given this uncertainty, no FPM has been recognised at this time and so the saving compared to the PR13 baseline has been treated as neutral for the current year. This will be reviewed and updated in future years.

Comments – Adjustments for missed regulatory outputs:

- (1) FPM is adjusted for any missed regulatory outputs. These adjustments can only ever result in a decreased in FPM as the measure is not symmetrical as no credit is given for exceeding regulatory targets only reductions made for not achieving the targets.
- (2) PPM – passenger train punctuality data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Western were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Western also faces a reduction for this missed output.
- (3) CaSL (cancellations and significant lateness) – CaSL data is not captured directly by route, but by operator. The shortfall is then apportioned to routes on the basis of delay minutes. Targets for operators in Western were missed in 2014/15. As well as the financial impact of this (noted above in Schedule 8 financial variances) Western also faces a reduction for this missed output.

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

in £m 2014-15 prices unless stated

	Variance to PR13 A	Deferral/ (acceleration) of work B	Final Variance C	2014-15 Financial out/ (under) performance D	Due to: E	Cost (in) / efficiency F	Scope (in) / efficiency G	Other (in) / efficiencies H
Track	(5)	19	(24)	(6)	(6)	-	-	-
Signalling	82	94	(12)	(3)	(3)	-	-	-
Civils	(27)	(11)	(16)	(4)	(3)	(1)	-	-
Buildings	4	4	-	-	-	-	-	-
Electrical power and fixed plant	9	9	-	-	-	-	-	-
Telecoms	6	6	-	-	-	-	-	-
Wheeled plant and machinery	9	9	-	-	-	-	-	-
IT	(7)	(7)	-	-	-	-	-	-
Property	(1)	(1)	-	-	-	-	-	-
Other renewals	(46)	(34)	(12)	(3)	(2)	(1)	-	-
Total	24	88	(64)	(16)	(14)	(2)	-	-

Where:

C = A - B

D = C x 25%

And:

D = E + F + G

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

In £m 2014-15 prices unless stated

Notes:

- (1) When assessing financial performance, the PR13 baseline is adjusted to reflect the level of activity completed in the year. Therefore, there is no financial under/ out performance as a result of re-profiling work within the control period.
- (2) When calculating the financial performance generally, 25 per cent of any financial out/ under performance is retained by Network Rail. However, if the overspend is considered to be inefficient in nature (using the guidelines set out in the ORR's Regulatory Accounting Guidelines April 2014) then 100 per cent of the overspend is included in the assessment of financial performance.

Comments:

- (1) Negative financial performance has been recognised in the current year across almost all asset categories reflecting the difficulties Network Rail have had in achieving the regulator's efficiency targets. As these efficiency targets get progressively harder as the control period continues there are significant challenges for Network Rail to avoid financial underperformance in future years.
- (2) Track – there has been notable negative FPM in the current year. Most of this was expected in the financial model which underpinned Network Rail's published CP5 Business Plan. The cost of track renewals at the end of control period 4 was significantly higher than the regulator assumed meaning that achieving the efficiency challenges in the determination was always going to be unlikely. Costs in the current year have also suffered from contractor productivity issues and not achieved expected savings from using new technologies and working practices. Cost and budgetary pressures has also resulted in a reduction in volumes planned over the control period. However, there is not a proportionate link between reductions in volumes and reductions in cost and so falling volumes leads to an increase in average costs of each remaining job. Abortive project costs also contributed to the underperformance in the year.
- (3) Signalling – FPM has been adversely affected by cost increases on certain large resignalling schemes. Additional costs on Swindon and Bristol re-signalling schemes have incurred delay costs, including additional possessions and contractor claims. Planned savings in unit rate from contractors have not emerged. In addition, Signalling efficiencies have also been eroded by the volume of work currently going on in the wider industry which has led to an overheating of the supply chain, forcing up contractor costs and limiting resource availability in order to complete all of the work Network Rail planned, which has led to project delay and postponement. There was some benefits scope on Bristol South following a re-design of the scheme and successful contractor claim settlement on Reading project.
- (4) Civils – cost overruns across a number of projects have contributed to the negative Civils FPM this year. Expenditure in the year included activity on emergency Earthworks schemes, following on from the impact of the extreme weather in 2013/14 on the Western part of the network. Whilst some of this work has been funded by external insurers, some has remained within the organisation. The extra costs of repairing these structures and earthworks is not included in the determination allowances but are required to be completed in order to preserve the operational capability of the railway network. By their nature, costs on these jobs are higher than average due to the requirement for timely resolution.
- (5) Other renewals – this is mainly due to additional expenses on projects rolled forward from CP4. The regulator agreed that a certain amount of funding allowances could be available for specific named projects that were in flight at the end of CP4 but not yet finished. However, the expected cost of many of these projects is expected to exceed the amounts made available by the regulator. Whilst some of these additional costs were expected and included in the financial model which underpinned Network Rail's published CP5 Business Plan (Paddington roof), others, (FTN) have emerged in 2014/15. As not all of these CP4 rollover projects have finished not all of the expected FPM has been recognised in 2014/15. As these projects complete in the next couple of years additional negative FPM will crystallise later in the control period.

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

in £m 2014-15 prices unless stated

			2014-15			
	Variance to adjusted PR13	Variance due to ECAM adjustment	Deferral/ (acceleration) of work	Other adjustments	Final Variance	Financial out/ (under) performance
GW electrification (Paddington to Cardiff)	(85)	95	26	-	(16)	(4)
Reading station area redevelopment	8	(57)	(49)	-	-	-
Dr Days to Filton Abbey Wood capacity improvements	3	-	3	-	-	-
Swindon Kemble Redoubling	(24)	-	(13)	-	(11)	(11)
Other Enhancements	63	-	63	-	-	-
Total	(35)	38	30	-	(27)	(15)

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

In £m 2014-15 prices unless stated

Notes:

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

Comments:

- (1) As part of the ECAM process, ORR reduced the agreed efficient price of each programme by 3 per cent to reflect a stretch target that the regulator imposed. Therefore, once a programme has been through the ECAM process it is likely that it would expect to have negative FPM as the funding has been reduced by 3 per cent but the programme has not had long enough to realise any savings to offset this 3 per cent. Against this regime it is unsurprising that Network Rail is reporting negative FPM on programmes that have been through ECAM.
- (2) GW electrification – approximately half of the negative FPM is due to the 3 per cent stretch imposed by the regulator on the ECAM price. The remaining amount is due to increases in the expected costs which have emerged as the programme plans become more detailed. The GW electrification programme is a hugely complex enhancement which is reliant on acquiring the necessary contractors with the competence and experience to deliver it safely and on time.
- (3) Swindon Kemble Redoubling – this project sits outside the PR13 and the allowable expenditure to be added to the RAB has been agreed through the regulator's investment framework. This project was started in CP4 but recently identified cost increases have resulted in Network Rail spending more than expected. Discussions with ORR are ongoing to understand how this overspend should be treated.

Statement 5d: REBS Reconciliation, Western

in £m 2014-15 prices unless stated

	A	B	Cumulative to 2014-15		E	F	G
			C	D			
	Actual	REBS Baseline	Variance to REBS Baseline	Deferral (acceleration) of work	Other adjustments	Impact of RAB Rollforward at 25%	REBS out / (under) performance before adjustments
Income							
Variable usage charge	24	24	-	-	-	-	-
Capacity charge	47	49	(2)	-	-	-	(2)
Electricity asset utilisation charge	-	-	-	-	-	-	-
Property income [2]	21	21	-	-	-	-	-
Expenditure							
Network operations	39	31	(8)	-	-	-	(8)
Support costs	40	44	4	-	2	-	2
RSSB and BT Police	8	10	2	-	-	-	2
Network maintenance	116	112	(4)	(4)	-	-	-
Schedule 4 costs	26	26	-	4	-	-	(4)
Schedule 8 costs	18	-	(18)	-	-	-	(18)
Renewals	333	315	(18)	46	-	(48)	(16)
Total REBS performance			(44)	46	2	(48)	(44)
Less adjustments for under-delivery of outputs and reduced sustainability							
Under-delivery of train performance requirements (PPM)							(7)
Under-delivery of train performance requirements (CaSL)							(2)
Total adjustment for under delivery of outputs and reduced sustainability							(9)
Cumulative performance to end of 2014-15							(53)
Net REBS performance for 2014-15							(53)

Where: $C = B - A$

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

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

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

In £m 2014-15 prices unless stated

Notes:

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

Statement 6a: Analysis of income, Western

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Grant income	398	396	2	405
Franchised track access income				
Fixed charges	37	36	1	122
Variable charges	-	-	-	-
Variable usage charge	19	19	-	18
Traction electricity charges	-	-	-	-
Electrification asset usage charge	-	-	-	-
Capacity charge	47	48	(1)	31
Station usage charge	-	-	-	-
Schedule 4 net income	24	24	-	30
Schedule 8 net income	-	-	-	-
Total Variable charges income	90	91	(1)	79
Total franchised track access income	127	127	-	201
Total franchised track access and grant income	525	523	2	606
Other single till income				
Property income	21	23	(2)	21
Freight income	5	6	(1)	7
Open access income	11	11	-	11
Stations income	26	22	4	18
Facility and financing charges	19	43	(24)	4
Depots Income	7	7	-	7
Other income	-	-	-	1
Total other single till income	89	112	(23)	69
Total income	614	635	(21)	675

Statement 6a: Analysis of income, Western - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 4 regimes are disclosed in Statement 10.
- (2) Schedule 8 income represents passenger charter access charge supplement. Net amounts payable under the Schedule 8 regimes are disclosed in Statement 10.
- (3) The above analysis of income does not include amounts receivable/ payable by Network Rail under the CP5 Opex memorandum (including amounts earned through the volume incentive mechanism). These are disclosed separately in Statement 10.
- (4) The above analysis of income does not include the impact of amounts paid to/ receivable from stakeholders under Route-level Efficiency Benefit Sharing (REBS) – refer to Statement 5).
- (5) Following changes in the regulators' requirements for presentation of the financial results this year compared to control period 5, certain types of income is now classified in a different way compared to last year's published Regulatory financial statements. For example, income earned through retail offerings at managed stations is now included within Property income whereas last year this was included within Stations income. In addition, facility fees income shown last control period in Depots income or Stations income is now separately disclosed within Facility charges. Therefore, the classification of 2013/14 income has been restated to create a like-for-like comparison with the 2014/15 formats and categories.

Comments:

- (1) This Statement shows Network Rail's income compared to the PR13. Fixed charges and Grant income are largely predetermined. The remaining income types are variable.
- (2) Grant income - grant income was slightly higher than the determination. This is due to the difference between the inflation rates used to calculate the regulatory allowance in the above table (being the November 2014 RPI, in line with the guidance set out by the regulator in the Regulatory Accounting Guidelines), and the rates used to calculate the actual grant payments made by Department for Transport which are calculated using the November 2013 RPI in line with the Deed of Grant arrangement. As this variance is a result of timing differences in inflation indices Network Rail does not include the benefit (or loss) of this in its' assessment of financial performance (refer to Statement 5). Grant income cannot be compared to the prior year figure in a meaningful way. The amount of grant income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The increase in grant income compared to 2013/14 is partly offset by lower Fixed charges received from operators. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (3) Fixed charges – fixed charge income was broadly in line with the determination. Fixed charges cannot be compared to the prior year figure in a meaningful way. The amount of fixed charge income Network Rail receives is based on circumstances of that specific control period and the assumptions made by the regulator. The decrease in fixed charges compared to 2013/14 is partly offset by higher grant income received from government. Overall, the total of grant income plus fixed charges is lower this year compared to last as ORR has decided to remove the risk-buffer from Network Rail's funding settlement in CP5, as it expects Network Rail to use its balance sheet for protection against financial risk this control period. Also, the level of income Network Rail is given is lower to reflect the efficiencies the regulator assumes Network Rail will make in reducing its cost base in CP5.
- (4) Capacity charge - this is broadly in line with the determination. The regulator undertook a major recalibration of the capacity charge in PR13, resulting in substantial increases in many of the capacity charge rates. Therefore the in year figure cannot be compared to 2013/14 in a meaningful way.

Statement 6a: Analysis of income, Western - continued

In £m 2014-15 prices unless stated

- (5) Schedule 4 net income – as noted above, this represents passenger charter access charge supplement income. This is expected to be in line with the determination as the prices are contractually set (slight differences may arise due to inflation differences between the uplift of the PR13 allowances and the RPI used to calculate the actual charges in the year). The amounts Network Rail receive through the Schedule 4 access charge supplement should represent the efficient Schedule 4 possession costs that Network Rail incur. Income is significantly higher than the 2013/14 value. This is due to changes in the Schedule 4 compensation rates in control period 5 compared to control period 4, which also results in changes in the access charge supplement payable by operators.
- (6) Property income – this is lower than the determination due to lower property sales. Property sales, by their very nature can fluctuate year-on-year depending upon the commercial opportunities that present themselves and Network Rail's desire to extract maximum commercial value from these transactions as each property can only be sold once. Property income is in line with the previous year.
- (7) Stations income – this is favourable to the regulator's assumption with the main contributor being Western route, where the status of two stations, Bristol and Reading, changed from being franchised stations to managed stations. This generates more income for Network Rail but as a result of the change in classification Network Rail now has greater responsibility for the operations of the stations which has resulted in increased operating costs (refer to Statement 7a).
- (8) Facility and financing charges – this is lower than the determination which is mainly due to the Crossrail finance charge income mechanism. The determination assumed that Crossrail Limited (the party responsible for the delivery of the total Crossrail programme) would provide funding to Network Rail to cover the borrowing costs that Network Rail would incur in order to deliver the required infrastructure for the Crossrail programme. However, this assumption did not come to pass. Instead, Crossrail provided the funding directly to Network Rail meaning that Network Rail did not have to borrow the funds and incur interest. When assessing Network Rail's financial performance (refer to Statement 5) this variance is omitted as it is offset by a corresponding saving in interest which is not a category of expenditure included in the assessment of Network Rail's financial performance.

Statement 6b: Analysis of other single till income, Western (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Property Income				
Property rental	22	22	-	23
Property sales	(1)	3	(4)	(2)
Adjustment for commercial opex	-	(2)	2	-
Total property income	21	23	(2)	21
Freight income				
Freight variable usage charge	5	5	-	6
Freight traction electricity charges	-	-	-	-
Freight electrification asset usage charge	-	-	-	-
Freight capacity charge	-	-	-	-
Freight only line charge	-	-	-	-
Freight specific charge	-	-	-	-
Freight other income	-	-	-	-
Freight coal spillage charge	-	1	(1)	1
Total freight income	5	6	(1)	7
Open access income				
Variable usage charge income	-	-	-	-
Open access capacity charge	-	-	-	-
Open access traction electricity charges	2	2	-	2
Fixed contractual contribution	9	9	-	9
Open access other income	-	-	-	-
Total open access income	11	11	-	11
Stations income				
Managed stations income				
Long term charge	5	3	2	1
Qualifying expenditure	9	3	6	2
Total managed stations income	14	6	8	3
Franchised stations income				
Long term charge	9	10	(1)	10
Stations lease income	3	6	(3)	5
Total franchised stations income	12	16	(4)	15
Total stations income	26	22	4	18
Facility and financing charges				
Facility charges	19	13	6	4
Crossrail finance charge	-	30	(30)	-
Welsh Valleys finance charge	-	-	-	-
Total facility and financing charges	19	43	(24)	4
Depots income	7	7	-	7
Other	-	-	-	1
Total other single till income	89	112	(23)	69

Statement 6b: Analysis of other single till income, Western (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Network operations				
Signaller expenditure				
Signallers and level crossing keepers	18	17	(1)	17
Signalling shift managers	-	1	1	-
Local operations managers	1	1	-	1
Controllers	6	2	(4)	5
Electrical control room operators	-	1	1	-
Total signaller expenditure	25	22	(3)	23
Non-signaller expenditure				
Mobile operations managers	2	2	-	2
Managed stations	8	3	(5)	2
Performance	1	1	-	1
Customer relationship executives	-	1	1	-
Route enhancement managers	-	-	-	-
Weather	-	1	1	-
Other	6	1	(5)	(4)
Operations delivery	-	-	-	-
HQ - Operations services	-	-	-	-
HQ - Performance and planning	-	-	-	-
HQ - Stations and customer services	-	-	-	-
HQ - Other	1	2	1	4
Other operating income	(4)	(2)	2	-
Total non-signaller expenditure	14	9	(5)	5
Total network operations expenditure	39	31	(8)	28
Support costs				
Core support costs				
Human resources	3	5	2	6
Information management	6	6	-	5
Government and corporate affairs	1	1	-	2
Group strategy	1	2	1	1
Finance	2	2	-	2
Business services	1	2	1	1
Accommodation	7	5	(2)	7
Utilities	4	5	1	4
Insurance	6	6	-	3
Legal and inquiry	1	-	(1)	-
Safety and sustainable development	2	1	(1)	1
Strategic sourcing	1	1	-	1
Business change	-	-	-	-
Other corporate functions	6	-	(6)	4
Core support costs	41	36	(5)	37
Other support costs				
Asset management services	3	4	1	4
Network Rail telecoms	4	4	-	4
National delivery service	-	1	1	-
Infrastructure Projects	(2)	-	2	(5)
Commercial property	(1)	-	1	2
Group costs	(5)	(1)	4	14
Total other support costs	(1)	8	9	19
Total support costs	40	44	4	56
Traction electricity, industry costs and rates				
Traction electricity	-	-	-	-
Business rates	14	15	1	13
British transport police costs	7	7	-	7
RSSB costs	1	1	-	1
ORR licence fee and railway safety levy	2	2	-	2
Reporters fees	-	-	-	-
Other industry costs	-	-	-	-
Total traction electricity, industry costs and rates	24	25	1	23
Total network operations expenditure, support costs, traction electricity, industry	103	100	(3)	107

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

In £m 2014-15 prices unless stated

Notes:

- (1) Support costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Network maintenance in the Regulator's determination. This has led to an increase in prior year Support costs in order to create a like-for-like comparison.

Comments:

- (1) Network Rail classifies its operating costs between: Network Operations (referred to as Operations & customer services costs in CP4), Support costs, Maintenance costs (refer to Statement 8a) and Traction electricity, industry costs and rates (referred to as non-controllable costs in CP4).
- (2) Network Operations costs are mostly associated with the management of the signalling system on the network but also incorporates activity at managed stations and other customer-facing services. The PR13 uses the term "network operations" to refer to these costs. Note that this is different to the network operations function that exists within Network Rail. The network operations function is responsible for these costs but is also accountable for much of the maintenance costs incurred by the organisation as well as the delivery of capital expenditure projects and management of many aspects of turnover, schedule 4 and schedule 8.
- (3) Network Operations costs are higher than the regulator's assumptions. The largest contributor was the reclassification of Reading and Bristol stations which have moved from franchised stations to managed stations. As a result Network Rail is responsible for the costs of running the station. There should be a corresponding increase in stations income as a result.
- (4) Support costs refer to those activities which are generally centrally managed and relate to the auxiliary activities Network Rail needs to undertake in order to facilitate the rest of the business areas. Support costs are lower than the determination (largely arising from one-off savings in Group) and lower than the previous year (a combination of one-off movements in Group and generating of efficiencies across a range of functions).
- (5) Human Resources - costs are noticeably lower than the determination and the previous financial year. As part of the devolution process central staff and activities were moved to Network Rail's operating routes in order to support the new organisational structure to develop tighter control of costs and a better level of service. For example, training costs budgets were moved from HR to other departments to improve decision making on the most cost effective way to develop and train staff, resulting in more internal, peer-led training programmes rather than using external training courses. Further breakdown of HR costs can be found in Statement 7b.
- (6) Other corporate functions – costs are in line with the prior year and mostly consist of Route Services and Route Asset Management cost. The PR13 did not include separate allowances for the route based costs as these were included either as allowances elsewhere, such as in Human Resources, Finance or Asset Management or did not expect the same level of organisational requirement. The savings compared to the PR13 in Human Resources, Finance and Asset Management are funding the increased expenditure in Other corporate functions. Further breakdown of Support costs is disclosed in Statement 7b.

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

In £m 2014-15 prices unless stated

- (7) Group – Group costs include various one-off transactions and so, to aid understanding, a more complete breakdown is included in Statement 7b. Costs are favourable to the determination and the prior year due to a number of one-off events. In the 2013/14 Regulatory financial statements Network Rail included a provision in relation to a regulatory financial penalty to be imposed by ORR for missing CP4 train performance targets. This was calculated based on guidance issued by ORR in May 2012. In their final assessment of the appropriate level of financial penalty the regulator reduced the pay out, thus resulting in a release of some of this provision which is included as a credit in this year's results. As Network Rail is intending to re-invest this difference in the railway this has not been counted as financial outperformance as shown in Statement 5. In addition, this year Network Rail's board took the decision to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. This manifests itself in higher Network maintenance costs as a result of the additional costs but Support cost savings as a result of the lower payouts under long-term incentive plans. In 2013/14 Network Rail undertook a significant re-organisation programme to rationalise the number of management roles in the company which resulted in significant costs last year. As part of this re-organisation initiative there were also substantial costs this year too. However, the costs were lower than planned as staff originally expected to leave the organisation were able to source alternative roles within the company, resulting in fewer redundancy payments.
- (8) Traction electricity, industry costs and rates – in previous control periods the regulator has referred to these costs as “non-controllable” to illustrate the limited impact that Network Rail has over these. In the current control period ORR has changed the name to emphasise that it expects Network Rail to make savings across all of its cost base. Costs are broadly in line with the regulator's assumption and the previous year.

Statement 7b: Analysis of network operations expenditure and support costs by activity, Western (unaudited)

in £m 2014-15 prices unless stated

	2013-14	2014-15
Network operations		
Operations and customer services signalling	14	17
Operations and customer services non-signalling	-	-
MOMS	1	2
Control	2	6
Planning & Performance Staff Costs	2	3
Managed Stations Staff Costs	1	2
Operations Management Staff Costs	1	2
Other	7	7
Total operations & customer services costs	28	39
Total Network Operations	28	39
Support		
Human resources		
Functional support	3	-
Training (inc Westwood)	2	1
Graduates	-	-
Apprenticeships	1	1
Other	-	1
Total human resources	6	3
Information management		
Support	1	1
Projects	-	-
Licences	-	-
Business operations	4	5
Other	-	-
Total information management	5	6
Finance	2	2
Business Change	-	-
Contracts & procurement	1	-
Strategic Sourcing (National Supply Chain)	-	1
Planning & development	1	1
Safety & compliance	1	-
Other corporate services	5	2
Commercial property	9	6
Infrastructure Projects	(6)	(2)
Route Services	1	2
Asset management & Engineering/Asset heads	13	-
National delivery service	-	-
Utilities	-	4
Network Rail telecoms	-	4
Digital Railway	-	1
Safety Technical & Engineering	-	4
Government & Corporate Affairs	-	1
Business Services	-	1
Route Asset Management	-	2
Legal and inquiry	-	1
	-	-
Group/central	-	-
Pensions	-	-
Insurance	3	6
Redundancy/reorganisation costs	6	1
Staff incentives/Bonus Reduction	-	(2)
Accommodation & Support Recharges	-	(2)
ORR financial penalty	7	(2)
Other	-	-
Total group/central costs	17	1
Total support	55	40
Total network operations and support costs	83	79

Statement 7b: Analysis of network operations expenditure and support costs by activity, Western (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

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

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	39	41	2	47
Signalling	18	15	(3)	17
Civils	16	14	(2)	16
Buildings	6	6	-	9
Electrical power and fixed plant	4	18	14	3
Telecoms	2	2	-	2
Other network operations	29	13	(16)	10
Asset management services	3	3	-	3
National Delivery Service	(1)	4	5	1
Property	2	-	(2)	1
Group	(2)	(2)	-	(2)
Total maintenance expenditure	116	114	(2)	107

Statement 8a: Summary analysis of network maintenance expenditure, Western - continued

In £m 2014-15 prices unless stated

Notes:

- (1) These costs only include direct costs
- (2) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Maintenance. In CP4, the regulator funded Reactive Maintenance works as renewals but in CP5 has decided to include these costs as maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has increased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (3) The Maintenance costs for 2013/14 have been restated as the vehicle recharge which was credited to Support costs in CP4 has been moved to Maintenance in the Regulator's determination. This has led to a decrease in prior year Maintenance costs in order to create a like-for-like comparison.

Comments:

- (1) Maintenance costs are higher than the determination and the prior year. The main contributor to this was Network Rail's decision to reduce the level of incentive payouts to senior management and instead, re-invest this money into programmes to improve the safety and performance of the network. A significant amount was invested in tidying the line side areas with less debris benefitting workforce safety (as well as improving the aesthetics for the passengers) and reducing the level of vegetation near the railway to reduce train delays. The benefits of the reduced incentive payouts are realised in Support costs (refer to Statement 7a) but the costs of the initiatives are included as Network maintenance to reflect the most appropriate classification of the activity.
- (2) As noted in last year's Regulatory financial statements Network Rail made the decision to off-charge all of the activities of National Delivery Services to the various routes which benefitted from the services that this function offered. National Delivery Services are responsible for the efficient procurement of materials and the distribution of these to the appropriate location. This was done to optimise decision making and increase local accountability. As a result certain maintenance costs, notably track, are higher than the determination with a corresponding saving in National Delivery Services.
- (3) Track – costs are slightly below the determination despite the aforementioned difference in the assumption of the treatment of National Delivery Services costs. Some of the track maintenance activity moved from the core maintenance function and the related expenses are now shown in the Other network operations heading. This accounts for most of the movement in costs compared to the previous year, which also included many of the National Delivery Services costs.
- (4) Civils – costs were higher than the determination mainly as a result of a higher level of Reactive Maintenance activity. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year. The variance due to differences in the reactive maintenance spend has been treated as neutral when calculating Network Rail's financial outperformance (refer to Statement 5). This is in line with the treatment set out in Network Rail's financial outperformance guidelines which have been agreed with ORR.
- (5) Buildings – there were no maintenance costs for Buildings reported in last year's Regulatory financial statements as the regulator chose to fund reactive maintenance works through Renewals last control period whereas this year, to be consistent with International Accounting Standards (IAS), these costs are accounted for as maintenance. The prior year has been restated to reflect these changes and provide a like-for-like comparison. Reactive maintenance activity is, by its very nature, a cost which can fluctuate considerably depending upon external factors and conditions and so the expenditure can be volatile year-on-year.
- (6) Electrical power and fixed plant – costs are significantly lower than the determination but in line with the previous year. The determination assumed that certain activities were going to be classified within Electrical power and fixed plant. However, as most of these are reported under the Other network operations category there is minimal net impact on Network maintenance costs in the route.

Statement 8a: Summary analysis of network maintenance expenditure, Western - continued

In £m 2014-15 prices unless stated

- (7) Other network operations – as noted above Network Rail's board took the decision this year to significantly reduce incentive payments to senior staff and instead to re-invest these funds in improving the safety and performance of the network. A significant amount was spent on programmes to tidy up the line-side areas of the railway network and to reduce the impact of vegetation on performance. These programmes were managed through the central Network Operations team and hence these costs are included in the Other network operations category and contributes to the spend being higher than the regulator's assumption in 2014/15. The other factors contributing to the increase are reclassification of activity (and associated costs) from Track and Electrical power and fixed plant. Costs are noticeably higher than 2013/14 which is a combination of the investment in the programmes noted above and a significant increase in the asset management organisation within the routes. As part of the move towards a devolved, more accountable railway the capabilities and responsibilities of the local asset management teams have increased significantly since 2013/14, as planned in Network Rail's plans for CP5, and reflected in the expenditure allowances set by the regulator.
- (8) National Delivery Services – as noted above these costs are now all off-charged to the routes, who are the beneficiaries of the services provided, and included in the direct costs of the maintenance categories (largely track and signalling). This allows Network Rail to better understand the true costs of its activities and so make the most appropriate decisions from an asset management perspective. Amounts are off-charged to different Network Rail functions on the basis of fixed price tariffs at the start of the year. The small credit in National Delivery Services in the year represents the difference between the costs incurred in the procurement and distribution of materials and the amounts recovered from the routes for the services provided.

Statement 9a: Summary analysis of renewals expenditure, Western

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference	2013-14 Actual
Track	76	71	(5)	93
Signalling	98	180	82	141
Civils	85	58	(27)	86
Buildings	19	23	4	15
Electrical power and fixed plant	2	11	9	3
Telecoms	7	13	6	19
Wheeled plant and machinery	7	16	9	4
Information Technology	15	8	(7)	9
Property	3	2	(1)	1
Other renewals	21	(25)	(46)	13
Total renewals expenditure	333	357	24	384

Statement 9a: Summary analysis of renewals expenditure, Western - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The actual 2013/14 costs have been restated to reflect a reclassification of Reactive Maintenance (including certain building & civils examination works) from Renewals to Network maintenance. In CP4, the regulator funded Reactive Maintenance works as Renewals but in CP5 has decided to include these costs as Network maintenance to align with International Accounting Standards (IAS) treatment. Consequently, this has decreased the prior year costs compared to the data in the published 2013/14 Regulatory financial statements in order to create a like-for-like comparison.
- (2) The actual 2013/14 classification of costs has been restated to match the renewals categories of expenditure the ORR has in place for CP5. This has resulted in the expenditure and activity reported as Plant and machinery in last year's Regulatory financial statements being split between Electrical power and fixed plant and Wheeled plant and machinery in this year's statements. Similarly, expenditure on the commercial estate was classified within Other renewals last year and is now included within Property in the prior year comparative.

Comments:

- (1) Renewals expenditure in for the year is higher than the determination expected. This is largely a combination of Network Rail re-profiling expenditure during the control period, extra scope (notably projects rolled over from CP4), and higher than assumed costs. This has resulted in financial underperformance in the current year as reported in Statement 5. As planned, renewals costs are lower than the prior year. The final year of control period 4 included certain one-off initiatives and projects as well as a different workbank of jobs to complete.
- (2) Track – variance to PR13 is a due to a deferral of activity more than offset by higher than expected underlying costs. Network Rail's planned expenditure this year expected an overspend of around £20m on a like-for-like basis. This higher underlying cost was due to higher CP4 exit rates for plain line unit costs, which were significantly higher than the regulator assumed in its' determination. Starting from such a high cost base makes achieving the track cost targets set by the regulator in control period 5 virtually impossible. Actual underlying costs were higher than Network Rail planned for both plain line and switches & crossings partly due to contractor dispute issues (due to change in delivery partner) and the impact of cancelled jobs. For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These extra costs were partly offset by deferral of activity to future years. Expenditure was lower than the previous year with the largest contribution coming from conventional plain line renewals which was mainly a result of lower volumes delivered in the current year. In CP4 a great deal of track activity was delivered towards the end of the five-year period.
- (3) Signalling – overall, expenditure was significantly lower than the determination expected. However, this was largely due to deferral of activity (largest variance in Partial Conventional Re-signalling), which was partly offset by higher than expected costs on a like for like basis. These extra costs included increases in the expected total costs of some large multi-year re-signalling projects, such as those at Bristol and Swindon as well as the ETCS (European Train Control System) programme. Signalling financial underperformance has been recognised in the current year (refer to Statement 5). For the purposes of calculating the RAB, this additional cost has been treated as efficient overspend under the ORR's Regulatory Accounting Guidelines (March 2015) and only 75 per cent of these extra costs are eligible for addition to the RAB with Network Rail bearing the remaining 25 per cent of the overspend (refer to Statement 2). These additional costs have been more than offset by delays in activity, with a large contributor from the Bristol area project. This has been affected by contractor delivery delay. In addition, Oxford area resignalling project is behind schedule, as the main contractor on this scheme has been replaced following commercial disputes. The ETCS programme is progressing at a slower rate than the regulator assumed which is mostly driven by resource constraint in the market. Also, level crossings and minor works have been deferred until later in the control period. Expenditure is much lower than the previous year due to a different mix of projects. Expenditure in 2013/14 included investment in Crossrail related programmes to meet programme requirements.

Statement 9a: Summary analysis of renewals expenditure, Western - continued

In £m 2014-15 prices unless stated

- (4) Civils – under the CP5 regulatory settlement ORR deferred making a decision on the level of funding required for civils until after the control period started. Assessing the level of civils volumes (and so costs) across such a vast network is a complex process. Whilst Network Rail has made substantial improvements in its asset management and information it was unable to provide the ORR with sufficient support to justify the required volumes before the finalisation of the CP5 settlement. Network Rail and ORR are currently working together through the CAM (Civils Adjustment Mechanism) to establish the overall funding required for this control period. Against this background it is not surprising that Network Rail spend more on civils this year than the regulatory assumption. Earthworks expenditure is higher than the regulator's assumption due to increased amounts of emergency works. The extreme weather in 2013/14 impacted upon the railway infrastructure requiring remedial costs which have been recognised in the current year. This has also led to the category Other assets expenditure being higher than the regulator's assumption due to increased spend on coastal and estuary defences. Expenditure is noticeably lower than the previous year.
- (5) Buildings – expenditure in the year was slightly lower than the determination. This is due to lower expenditure on franchised and managed stations as activity was deferred to future years. Renewals costs were higher than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (6) Electrical power and fixed plant – expenditure in the year was noticeable lower than the determination. This is due to re-profiling of works to later in the control period especially in Fixed Plant. Fixed plant is lower than the determination as Network Rail have postponed planned purchases of some items for commercial considerations, to identify other delivery methods or consider whether the most economical solution over the life of the asset is to lease rather than buy the plant. Renewals costs were lower than in 2013/14 due to a different workbank being delivered in CP5 compared to the last year of CP4.
- (7) Telecoms – expenditure in the year was lower than the determination. There has been some re-profiling of work to later in the control period partly off-set by higher costs of delivery. This largely relates to projects that were not completed in CP4 and so had no funding available in the PR13 settlement. This has resulted in financial underperformance as reported in Statement 5. As resources have been focused elsewhere there has been less work on volume related assets such as SISS but more on projects categorised as non volume. The largest contributor to the decrease compared to the prior year is due to FTN/ GSM-R projects which were funded through the regulatory determination last control period. This programme was due to finish in CP4 although there are still some activities being completed. Expenditure on FTN/ GSM-R in CP5 is classified in Other renewals – CP4 rollover in this year's Regulatory financial statements.
- (8) Wheeled plant and machinery – expenditure in the year was less than the regulator assumed, mainly due to delays in purchasing high output machinery. There was also significantly lower expenditure on Seasonal and Intervention items that the regulator expected offset by higher expenditure on Materials delivery equipment. For Wheeled plant and machinery this shows a decrease in the level of planned expenditure in these areas as more efficient delivery solutions are undertaken. None of this saving has been included in financial performance this year (refer to Statement 5a).
- (9) Information technology – investment in the year is significantly higher than the determination assumed and is planned to be higher than the regulatory baseline across the control period. This extra expenditure was expected by the ORR who created a "spend to save" framework for Information technology projects so that there was a defined treatment for such projects. This was to allow Information technology projects with credible business cases to be partly funded through the Regulatory Asset Base and partly from the savings/ operational improvements that the projects would deliver. Costs are higher than the previous year mostly as a result of the mix of projects being delivered, most notably the Traffic Management System programme which should enable better informed train regulating decisions and more effective recovery plans, as well as assisting in the provision of consistent and more accurate information to the travelling public during delays.

Statement 9a: Summary analysis of renewals expenditure, Western - continued

In £m 2014-15 prices unless stated

(10) Other renewals

- a. Asset information strategy – activity in this area represents expenditure on Network Rail's ORBIS (Offering Rail Better Information Services) programme. Expenditure in this category is noticeably lower than the regulator assumed. This is because Network Rail is funding most of its work in this area through CP4 rollover category. Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. One such area was the ORBIS programme. Consequently, although there has been spend on ORBIS this year, as this is on CP4 elements of the project it has been included in the CP4 rollover classification. Total ORBIS expenditure (in Asset information strategy and CP4 rollover) is in line with the prior year spend on the programme.
- b. Faster isolations – in the CP5 regulatory settlement the ORR provided an allowance for Network Rail to invest in safer working practices. The regulator assumed expenditure in this area would be evenly phased over the course of the control period. However, Network Rail intends to deliver this programme in a different profile. Expenditure was lower than planned this year as Network Rail seeks the most optimal programme strategy to generate the maximum benefit from this funding. As this is a new fund and output for CP5 there is no prior year expenditure to compare to.
- c. Phasing overlay – the regulator has included a phasing overlay in the PR13 figures. This represents the ORR's view that Network Rail will re-profile its renewals delivery programme during the control period and has been included as a separate item rather than across all asset categories for transparency purposes. Over the control period this PR13 amount should be neutral. No actual expenditure will be reported against this category in the control period so variances are expected in subsequent annual Regulatory financial statements.
- d. CP4 rollover - Following the end of CP4 accounting close out process Network Rail agreed with ORR to have funding for certain projects roll over from CP4 into CP5. This is to reflect slippage and programme delays that occurred between the publication of the PR13 (October 2013) and the end of CP4 in March 2014. In 2014/15 this includes expenditure on FTN, ORBIS (as noted above) and Paddington roof. Expenditure in some of these areas (FTN and Paddington roof) has been higher than the amount the regulator assumed and this is classified as efficient overspend when assessing the company's financial performance (refer to Statement 5) and the amount that is eligible for addition to the Regulatory Asset Base (refer to Statement 2). As these are projects which are specific rollover items there is no prior year expenditure to compare to.

Statement 9b: Detailed analysis of renewals expenditure, Western (unaudited)

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Track			
Conventional plain line renewal	33	30	(3)
High output renewal	14	7	(7)
Plain line refurbishment	4	2	(2)
S&C renewal	11	11	-
S&C refurbishment	3	3	-
Track non-volume	1	6	5
Off track	10	12	2
Total track	76	71	(5)
Signalling			
Full conventional resignalling	-	13	13
Modular resignalling	-	-	-
ERTMS resignalling	4	-	(4)
Partial conventional resignalling	81	128	47
Targeted component renewal	-	16	16
ERTMS train fitment	-	-	-
ERTMS train fitment, risk provision	-	-	-
ERTMS other costs	-	-	-
Operating strategy other capital expenditure	-	2	2
Level crossings	3	8	5
Minor works	8	10	2
Centrally managed costs	2	3	1
Total signalling	98	180	82
Civils			
Underbridges	21	24	3
Overbridges	2	1	(1)
Bridgeguard 3	-	-	-
Major structures	1	-	(1)
Tunnels	1	6	5
Other assets	22	4	(18)
Structures other	2	5	3
Earthworks	37	18	(19)
Other	(1)	-	1
Total civils	85	58	(27)
Buildings			
Managed stations	2	5	3
Franchised stations	11	14	3
Light maint depots	3	2	(1)
Depot plant	-	1	1
Lineside buildings	1	1	-
MDU buildings	2	-	(2)
NDS depots	-	-	-
Other	-	-	-
Capitalised overheads	-	-	-
Total buildings	19	23	4

Statement 9b: Detailed analysis of renewals expenditure, Western (unaudited) - continued

in £m 2014-15 prices unless stated

	Actual	2014-15 PR13	Difference
Electrical power and fixed plant			
AC distribution	-	-	-
Overhead Line	-	-	-
DC distribution	-	-	-
Conductor rail	-	-	-
SCADA	-	-	-
Energy efficiency	-	-	-
System capability / capacity	-	-	-
Other electrical power	-	2	2
Fixed plant and rail heating	2	9	7
Total electrical power and plant	2	11	9
Telecoms			
Operational communications	-	-	-
Network	-	-	-
SISS	1	9	8
Projects and other	-	1	1
Non-route capital expenditure	6	3	(3)
Total telecoms	7	13	6
Wheeled plant and machinery			
High output	3	8	5
Incident response	-	-	-
Infrastructure monitoring	-	-	-
Intervention	1	3	2
Materials delivery	2	-	(2)
On track plant	-	1	1
Seasonal	-	3	3
Locomotives	-	-	-
Fleet support plant	-	1	1
Road vehicles	1	-	(1)
S&C delivery	-	-	-
Total wheeled plant and machinery	7	16	9
Information Technology			
IM delivered renewals	14	8	(6)
Traffic management	1	-	(1)
Total information technology	15	8	(7)
Property			
MDUs/offices	-	1	1
Commercial estate	3	1	(2)
Corporate services	-	-	-
Total property	3	2	(1)
Other renewals			
Asset information strategy	-	6	6
Intelligent infrastructure	1	1	-
Faster isolations	-	4	4
LOWS	-	1	1
Small plant	1	1	-
Research and development	-	-	-
Phasing overlay	-	(38)	(38)
Engineering innovation fund	-	-	-
CP4 rollover	19	-	(19)
Other	-	-	-
West Coast	-	-	-
Total other renewals	21	(25)	(46)
Total renewals	333	357	24

Statement 9b: Detailed analysis of renewals expenditure, Western (unaudited) - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The information in the table above is not required in the Regulatory Accounting Guidelines and has not been audited. It is disclosed for information purposes only.

Statement 10: Other information, Western

in £m 2014-15 prices unless stated

A) Schedule 4 & 8 (income)/costs

	Actual	2014-15 PR13	Difference	2013-14 Actual
Schedule 4				
Performance element income	-	-	-	-
Performance element costs	26	20	(6)	21
Access charge supplement Income	(24)	(24)	-	(30)
Net (income)/cost	2	(4)	(6)	(9)
Schedule 8				
Performance element income	-	-	-	-
Performance element costs	18	1	(17)	39
Access charge supplement Income	-	-	-	-
Net (income)/cost	18	1	(17)	39

B) Opex memorandum account

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

Statement 10: Other information, Western - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Schedule 4 is the regime by which operators are compensated for possessions (cancellations due to Network Rail's engineering work). Schedule 4 is intended to incentivise Network Rail to plan engineering work early and efficiently, thus reducing the impact on the travelling public.
- (2) Schedule 4 costs that are incurred against enhancements that were not taken into account in setting the access charge supplements in the PR13 are capitalised into the costs of those enhancements.
- (3) Schedule 8 performance regime provides a basis for compensation to train operators for the impact of lateness and cancellations on their revenue. It also provides incentives for Network Rail and train operators to continuously improve performance where it makes economic sense to do so. This is achieved by Network Rail and train operators making bonus payments/ paying financial compensation where performance is better than/ worse than the benchmark.
- (4) The Opex memorandum account shown in Table B) records and under/over spends on items within the requirement of the Regulatory Accounting Guidelines.
- (5) The volume incentive mechanism aims to incentivise Network Rail to respond to higher than anticipated demand from passengers and freight (refer to Statement 12). Unlike last control period, there is now equal risk in this measure for Network Rail, as traffic growth lower than the Regulator's assumptions will result in a penalty for the company. Amounts earned/ payable under the volume incentive are included in the Opex memorandum.
- (6) Amounts in the Opex memorandum at the end of the control period are expected to manifest themselves in higher/ lower grant and track access payments in control period 6. This is subject to the regulator's decisions in setting the determination for the next control period.
- (7) In control period 4 the regulator funded Network Rail for freight performance costs as part of the overall freight income assumptions (refer to Statement 6). This control period they have included these performance payments within the Schedule 4 and Schedule 8 figures. The prior year comparative figures have been restated to reflect the current regulatory disclosure to create a like-for-like comparison.

Comments:

- (1) Schedule 4 costs are higher than the determination. Part of this was due to additional activity. Where renewals activity that results in possessions has been deferred or accelerated, a corresponding adjustment has been made to Schedule 4 so that a fair assessment of financial performance can be made. Underlying costs are higher than the regulator planned as the renewals portfolio delivered in 2014/15 necessitated longer possessions and on the core (and so more expensive) routes compared to the modelled assumptions in the baseline. There was a new and vastly different set of rates used for Schedule 4 in PR13 compared to the last control period. Therefore the yearly cost cannot be compared to the 2013/14 number in a meaningful way.
- (2) Schedule 8 costs are greater than the determination due to train performance falling short of the regulators targets for 2014/15. Network Rail made it clear in the published CP5 Business Plan that the regulators' targets for train performance were not going to be achieved in the early years of the control period. This was partly due to the level of train performance that Network Rail exited CP4 at compared to the regulators' assumptions. Making even minor improvements in train punctuality requires a large amount of effort and so starting the control period so far behind the regulators' assumption makes achieving the punctuality targets in 2014/15 unrealistic. However, Network Rail still fell short of its own internal targets for train performance that it set at the start of the year, with the majority of delay minutes being associated with infrastructure failures. Train performance is also adversely affected by the level of traffic on the network as an incident on one train journey (such as network trespass) can lead to delays across several routes for many hours. As is shown in Statement 12, Network Rail has increased the volume of trains running on the network at a faster rate than the regulator assumed, bringing greater pressure to bear on the network and exacerbating the financial impact of any delay-causing incidents. There was a new and vastly different set of rates used for Schedule 8 in PR13 compared to the last control period. Therefore the yearly cost cannot be compared to the 2013/14 number in a meaningful way.

Statement 12: Volume incentives, Western

in £m 2014-15 prices unless stated

	Volume incentive cumulative to 2014-15	Contribution to volume incentive in year	Actual in year	2013-14 baseline	Baseline annual growth	Incentive Rate	Incentive Rate Unit
			A	B	C	D	
Passenger train miles (millions)	2	1	27	27	0.9%	1.46	pence per passenger train mile
Passenger farebox (millions)	3	1	845	798	2.5%	2.5%	% of additional farebox revenue
Freight train miles (millions)	1	-	2	2	1.2%	2.94	pence per freight train mile
Freight gross tonne miles (thousands)	2	-	2,719	2,503	1.5%	2.50	pence per freight 1,000 gross tonne mile
Total volume incentive	8	2					

The cumulative volume incentive is determined by the formula: $VI_t = (A_t - (B_{t-1} \times (1 + C_t))) \times D \times 5$

Where:

A_t = Actual in year quantity

B = 2014-15 baseline

C_t = Baseline annual growth (trigger target)

D = Incentive rate

VI = Cumulative volume incentive for the year

Statement 12: Volume incentives, Western - continued

In £m 2014-15 prices unless stated

Notes:

- (1) The volume incentive mechanism is designed to encourage Network Rail to be more responsive to the demand for train paths from its customers (and, ultimately, the travelling public). This is supposed to make Network Rail consider the provision of extra services in a more commercial manner, trading off the potential volume incentive amounts against the marginal costs of providing these services (eg network wear and tear, risk of schedule 8 costs).
- (2) This mechanism has operated in the past but for control period 5, the volume incentive is symmetrical meaning that if Network Rail fails to supply the level of traffic growth that the regulator's determination envisages, then Network Rail will be penalised under this mechanism. Under the volume incentive rules in operation in previous control periods, there was no downside to Network Rail
- (3) Income or costs arising under the volume incentive are added the opex memo (refer to statement 10).
- (4) Under the Regulatory Accounting Guidelines published by ORR Network Rail is obliged to multiply the volume incentive relating to 2014/15 by five to reflect the income/ cost that may arise over the five-year control period based on the growth experienced in the current year. Network Rail does not feel that the outperformance of the volume incentive baselines in 2014/15 provides sufficient certainty that the baselines will continue to be exceeded in future years, much less to the exact same extent. Network Rail only recognises amounts relating to the current year when calculating financial outperformance (which is set out in Statement 5).
- (5) The volume incentive cumulative to 2014-15 displays the raw data rounded to the nearest million. Therefore it is not the contribution to volume incentive in the year multiplied by 5.

Comments:

- (1) Network Rail has outperformed the regulator's targets and has earned £2m as a result. This outperformance is included in the assessment of Network Rail's financial outperformance for the year (refer to Statement 5).

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Western

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

Expenditure that is part of the unit cost number 1, 2017-18											
			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Track and off-track maintenance											
MNT004	Plain Line Tamping (km)	km	6,347	340	2,158	-	2,158	402	-	62	n/a
MNT005	Plain Line Stoneblowing (km)	km	9,529	153	1,458	-	1,458	196	-	43	n/a
MNT006	Manual Wet Bed removal (bay)	Bay	224	3,141	705	-	705	2,419	-	(722)	n/a
MNT012	Mechanical Wet bed removal (bay)	Bay	325	1,127	366	-	366	1,150	-	23	n/a
MNT007	S&C Tamping (point end)	Point end	4,231	268	1,134	-	1,134	536	-	268	n/a
MNT044	Rail Changing - Al-Thermic Weld - Standard Gap (weld)	Weld	350	1,424	498	-	498	1,550	-	126	n/a
MNT045	Rail Changing - CWR - Renew (Defects) (rail yard)	Rail Yards	124	11,171	1,386	-	1,386	8,400	-	(2,771)	n/a
MNT017	Mechanical Reprofilng of Ballast (Mile)	Mile	2,884	241	695	-	695	325	-	84	n/a
MNT020	Manual Reprofilng of Ballast (rail yard)	Rail Yards	4	185,847	833	-	833	155,398	-	(30,449)	n/a
MNT029	Replace Pads & Insulators (sleeper)	Sleeper	14	40,114	572	-	572	-	-	(40,114)	n/a
MNT036	Manual Correction of PL Track Geometry (CWR) (track yard)	Track Yard	15	179,127	2,605	-	2,605	74,600	-	(104,527)	n/a
MNT037	Manual Correction of PL Track Geometry (Jointed) (track yard)	Track Yard	8	86,432	688	-	688	66,011	-	(20,421)	n/a
MNT120	S&C Renew Crossing (crossing)	Crossing	18,321	56	1,026	-	1,026	49	-	(7)	n/a
MNT122	S&C Maintenance (point end)	Point end	31	39,330	1,223	-	1,223	42,400	-	3,070	n/a
MNT123	S&C Renew half set of Switches (H/S Switch)	H/S Switch	11,667	72	840	-	840	68	-	(4)	n/a
MNT124	S&C Stoneblowing (point end)	Point end	8,848	66	584	-	584	178	-	112	n/a
MNT309	Rail grinding plain line (TBA)	Miles	-	1,140	-	-	-	782	-	(358)	n/a
MNT310	Rail grinding S&C (TBA)	Point ends	-	311	-	-	-	600	-	289	n/a
MNT072	Fences & Boundary Walls (yard)	Yard	13	34,250	429	-	429	73,046	-	38,796	n/a
MNT073	Drainage (Yard)	Yard	14	11,362	161	-	161	76,440	-	65,078	n/a
MNT075	LX Management - Off Track (Each)	Each	605	593	359	-	359	1,889	-	1,296	n/a
MNT081	Vegetation Removal of Boundary Trees (No)	No.	108	955	103	-	103	3,255	-	2,300	n/a
MNT082	Vegetation Management by Train (Mile)	Mile	289	1,000	289	-	289	25	-	(975)	n/a
MNT170	Vegetation Management Manual (Sq yard)	Sq yard	3	494,261	1,584	-	1,584	1,417,027	-	922,766	n/a
MNT171	Vegetation Management Mechanised (Mile)	Mile	237	679	161	-	161	258	-	(421)	n/a
N/A	Non volume track and off-track maintenance	£m				18,972	18,972				n/a
Total track and off-track maintenance					19,857	18,972	38,829		40,567		1,738
Signalling maintenance											
N/A	Non volume signalling maintenance	£m				17,508	17,508			-	n/a
Total signalling maintenance						17,508	17,508		14,845		(2,663)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Western - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Civils maintenance											
MNT220	Tunnel Examinations	No. minor eler	-	13,156	-	-	-	12,496	-	(660)	n/a
MNT221	Detailed Examinations	No.	-	1,097	-	-	-	1,545	-	448	n/a
MNT222	Underwater Examination	No.	-	191	-	-	-	233	-	42	n/a
MNT223	Ancillary Structure examination	No. detailed	-	191	-	-	-	207	-	16	n/a
MNT224	Hidden critical element examinations	No.	-	74	-	-	-	86	-	12	n/a
MNT225	Load carrying assessment	No. spans	-	195	-	-	-	855	-	660	n/a
MNT226a	Visual Examinations (Civils)	No.	-	7,051	-	-	-	8,199	-	1,148	n/a
N/A	Non volume civils maintenance	£m				16,414	16,414			-	n/a
Total civils maintenance						16,414	16,414		13,868		(2,546)
Buildings maintenance											
MNT226	Visual examinations Buildings	Each	-	1,814	-	-	-	1,803	-	(11)	n/a
MNT227	5 yearly examinations	Each	-	36	-	-	-	68	-	32	n/a
N/A	Non volume buildings maintenance	£m				5,911	5,911			-	n/a
Total buildings maintenance						5,911	5,911		5,930		19
Electrical power and fixed plant maintenance											
MNT206	Maintain Conductor Rail	Various	500	2	1	-	1	-	-	(2)	n/a
MNT209	Maintain DC Traction Power Supplies	Each	129	637	82	-	82	-	-	(637)	n/a
MNT211	Maintain OHL Components	Various	74	5,186	383	-	383	369	-	(4,817)	n/a
MNT212	Maintain Points Heating	Each	44	8,385	372	-	372	17,840	-	9,455	n/a
MNT213	Maintain Signalling Power Supplies	Number	59	8,041	474	-	474	6,344	-	(1,697)	n/a
N/A	Non volume electrical power and fixed plant maintenance	£m				3,051	3,051			-	n/a
Total electrical power and fixed plant maintenance						1,312	3,051	4,363	17,458		13,095
Telecoms maintenance											
N/A	Non volume telecoms maintenance	£m				2,153	2,153			-	n/a
Total telecoms maintenance						2,153	2,153		2,353		200
Other network operations maintenance											
N/A	Non volume other network operations maintenance	£m				28,677	28,677			-	n/a
Total other network operations maintenance						28,677	28,677		12,899		(15,778)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Western - continued

in £m 2014-15 prices unless stated

A) Expenditure that is part of the unit cost framework, 2014-15

			Actual				Network Rail Business Plan		Difference to Business Plan		
			In year unit cost	Volume	Unit cost x volume	Other non-volume costs	Total Cost	Volume	Total Cost	Volume	Total Cost
Ref	Description	Unit of Measure (unit)	£/unit	unit	£k/unit	£k	£k	unit	£k	unit	£k
Asset Management maintenance											
N/A	Non volume asset management services maintenance	£m				2,730	2,730			-	n/a
Total asset management services maintenance						2,730	2,730		3,429		699
National delivery service maintenance											
N/A	Non volume national delivery service maintenance	£m				(503)	(503)			-	n/a
Total national delivery service maintenance						(503)	(503)		4,350		4,853
Property maintenance											
N/A	Non volume property maintenance	£m				1,946	1,946			-	n/a
Total property maintenance						1,946	1,946		348		(1,598)
Group maintenance											
N/A	Non volume group maintenance	£m				(1,893)	(1,893)			-	n/a
Total group maintenance						(1,893)	(1,893)		(1,702)		191
Total							116,135		114,345		(1,790)

Statement 13: Analysis of maintenance volumes, unit costs and expenditure, Western - continued

In £m 2014-15 prices unless stated

Notes:

- (1) Unit costs are derived by dividing the total costs for a maintenance category by the number of volumes reported against that category.
- (2) ORR did not include any maintenance volume or unit costs in their PR13. As agreed with the regulator, the volume figures in the PR13 column are extracted from Network Rail's published CP5 Business Plan. These volumes were indicative and not a detailed consideration of the appropriate level of activity required to maintain asset condition.
- (3) As Network Rail's published CP5 Business Plan did not include any costs for each of the maintenance activities it is not possible to compare unit costs to those included in the CP5 Business Plan.

Comments:

- (1) The number of volume categories reported in the Regulatory financial statements has increased in Track, Civils, Buildings and Electrical Power compared to the previous year.
- (2) For Buildings and Civils Network Rail's management has focussed on understanding volumes rather than unit costs. Therefore this statement only reports actual volumes and not costs.
- (3) As Maintenance is a condition led activity there are large variances between the actual and planned volumes. The volumes included in the CP5 Business Plan were indicative only and are not a detailed assessment of the level of maintenance volumes that would be required to sustain asset condition. In addition there are a number of maintenance activities which Network Rail undertakes on its assets which are not captured through the MUC framework. A more useful comparison with planned activity can be undertaken by a comparison on a resource basis which considers expenditure variances to the determination at asset category/ function level.
- (4) Asset category/ function level variances for maintenance costs are presented in Statement 8a.

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Track	Track plain line	ckm	347	147	51	-	51	442	129	57	-	57	95	(18)	6	-	6
	Conventional		647	51	33	-	33	774	53	41	-	41	127	2	8	-	8
	High Output		452	31	14	-	14	382	34	13	-	13	(69)	3	(1)	-	(1)
	Refurbishment		62	65	4	-	4	71	42	3	-	3	10	(23)	(1)	-	(1)
	S&C	point enc	400	35	14	-	14	239	67	16	-	16	(161)	32	2	-	2
	Track Drainage		1	1,850	2	-	2	-	-	7	-	7	(1)	(1,850)	5	-	5
	Renewal	lm	-	1,850	-	-	-	-	-	-	-	-	-	(1,850)	-	-	-
	Refurbishment	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	New Build	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Fencing		19	54	1	-	1	19	54	1	-	1	-	-	-	-	-
	Slab Track		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Off track		-	-	-	8	8	8	-	-	7	7	8	-	-	(1)	(1)
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				68	8	76			81	7	88			13	(1)	12
Signalling	Resignalling	SEU	n/a	n/a	n/a	-	85	n/a	n/a	n/a	-	148	n/a	n/a	n/a	-	63
	Full conventional resignalling	SEU	-	-	-	-	-	-	-	13	-	13	-	-	13	-	13
	Modular resignalling	SEU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	ERTMS resignalling	SEU	-	-	4	-	4	-	-	-	-	-	-	-	(4)	-	(4)
	Partial conventional resignalling	SEU	591	137	81	-	81	203	591	120	-	120	(388)	454	39	-	39
	Targeted component renewal	SEU	-	-	-	-	-	197	76	15	-	15	197	76	15	-	15
	Level crossings	No.	1,500	2	3	-	3	625	16	10	-	10	(875)	14	7	-	7
	Signalling other		-	-	-	10	10	-	-	-	10	10	-	-	-	-	-
	ERTMS train fitment		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS train fitment, risk provision		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	ERTMS other costs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Operating strategy other capex		n/a	n/a	n/a	-	-	n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2
	Minor works		n/a	n/a	n/a	8	8	n/a	n/a	n/a	6	6	n/a	n/a	n/a	(2)	(2)
	Centrally managed costs		n/a	n/a	n/a	2	2	n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-
	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total				88	10	98			158	10	168			70	-	70

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Civils	Key structures		n/a	n/a	n/a	-	25	n/a	n/a	n/a	-	37	n/a	n/a	n/a	-	12
	Underbridges	m2	2	11,232	21	-	21	1	11,211	28	-	28	(0)	(21)	7	-	7
	Overbridges (incl BG3)	m2	-	-	2	-	2	3	1,235	3	-	3	3	1,235	1	-	1
	Tunnels	m2	1	1,274	1	-	1	1	2,108	6	-	6	1	834	5	-	5
	Major structures	m2	-	-	-	1	1	-	-	-	-	-	-	-	-	(1)	(1)
	Other structures assets		n/a	n/a	n/a	-	22	n/a	n/a	n/a	-	5	n/a	n/a	n/a	-	(17)
	Culverts	m2	2	2,507	6	-	6	6	510	3	-	3	3	(1,997)	(3)	-	(3)
	Footbridges	m2	-	-	-	-	-	-	40	-	-	-	-	40	-	-	-
	Coastal & Estuary Defences	m	250	60	15	-	15	-	-	1	-	1	(250)	(60)	(14)	-	(14)
	Retaining Walls	m2	-	-	1	-	1	7	150	1	-	1	7	150	-	-	-
	Earthworks	5-chain	71	477	34	-	34	29	502	16	-	16	(42)	25	(18)	-	(18)
	EW Drainage		-	-	3	-	3	-	3,302	6	-	6	-	3,302	3	-	3
	Renewal	lm	-	-	-	-	-	-	2,129	-	-	-	-	2,129	-	-	-
	Refurbishment	lm	-	-	-	-	-	-	340	-	-	-	-	340	-	-	-
	Maintenance	lm	-	-	-	-	-	-	833	-	-	-	-	833	-	-	-
	New Build	lm	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Structures other		-	-	-	2	2	-	-	-	2	2	-	n/a	-	-	-
	Other		-	-	-	(1)	(1)	-	-	-	(7)	(7)	-	n/a	-	(6)	(6)
	Total				83	2	85			63	(5)	59			(19)	(7)	(26)

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Buildings	Franchised Stations		n/a	n/a	n/a	-	11	n/a	n/a	n/a	-	21	n/a	n/a	n/a	-	10
	Footbridges	m2	43	70	3	-	3	-	445	n/a	n/a	-	n/a	375	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	4,000	n/a	n/a	-	n/a	4,000	n/a	n/a	-
	Canopies	m2	0	3,500	1	-	1	-	2,329	n/a	n/a	-	n/a	(1,171)	n/a	n/a	-
	Platforms	m2	-	1,125	-	-	-	-	600	n/a	n/a	-	n/a	(525)	n/a	n/a	-
	Buildings	m2	-	-	-	-	-	-	3,472	n/a	n/a	-	n/a	3,472	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	5	n/a	n/a	-	n/a	5	n/a	n/a	-
	Other		-	-	-	7	7	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Managed Stations		n/a	n/a	n/a	-	2	n/a	n/a	n/a	-	4	n/a	n/a	n/a	n/a	2
	Footbridges	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Train Sheds	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Canopies	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Platforms	m2	-	15	-	-	-	-	100	n/a	n/a	-	n/a	85	n/a	n/a	-
	Buildings	m2	-	-	1	-	1	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Lifts & Escalators	No.	-	-	-	-	-	-	1	n/a	n/a	-	n/a	1	n/a	n/a	-
	Other		-	-	-	1	1	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Light Maintenance Depots		0	25,950	3	-	3	-	26,888	-	-	5	n/a	938	n/a	n/a	2
	Buildings	m2	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Depot Shed	m2	-	25,950	-	-	-	-	26,888	n/a	n/a	-	n/a	938	n/a	n/a	-
	Lineside Buildings	m2	-	-	1	-	1	-	-	n/a	n/a	3	n/a	-	n/a	n/a	2
	MDU Buildings	m2	-	-	2	-	2	-	-	n/a	n/a	1	n/a	-	n/a	n/a	(1)
	Depot Plant		-	-	-	-	-	-	-	n/a	n/a	1	n/a	n/a	n/a	n/a	1
	NDS Depots		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Capitalised overheads		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	(6)	n/a	n/a	n/a	n/a	(6)
	Total				11	8	19			-	-	29			-	-	10

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	x volume £m	Other non- volume costs £m	Total Cost £m
Electrical power and fixed plant	Contact Systems		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Overhead Line Equipment (OLE) Re-wiring	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Mid-life Refurbishment	wire runs	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Structure Renewals	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Conductor rail	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	AC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Booster Transformers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	DC distribution		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	HV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	HV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Switchgear Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	LV Cables	km	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Transformer Rectifiers	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Fixed plant		-	-	-	-	2	-	-	n/a	n/a	9	n/a	n/a	n/a	n/a	7
	Signalling Power Cable Renewal	km	-	12	-	-	-	-	55	n/a	n/a	-	n/a	43	n/a	n/a	-
	Principle Supply Point Renewal	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Other		-	-	-	2	2	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Rail Heating - points heating	Point End	-	-	-	-	-	-	17	n/a	n/a	-	n/a	17	n/a	n/a	-
	SCADA		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Energy efficiency		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	System capability / capacity		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Other electrical power		-	-	-	-	-	-	-	n/a	n/a	2	n/a	n/a	n/a	n/a	2
	Other		-	-	-	-	-	-	-	n/a	n/a	-	n/a	n/a	n/a	n/a	-
Total					-	2	2			-	-	11			-	-	9

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Telecoms	Station Information and Surveillance Systems		-	-	-	-	1	-	-	-	-	6	n/a	n/a	n/a	n/a	5
	Customer Information Systems	No.	56	18	1	-	1	-	-	n/a	n/a	-	n/a	(18)	n/a	n/a	-
	Public Address CCTV	No.	-	-	-	-	-	-	382	n/a	n/a	-	n/a	366	n/a	n/a	-
	Clocks	No.	-	-	-	-	-	-	253	n/a	n/a	-	n/a	253	n/a	n/a	-
	Operational Comms	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	PABX Concentrator	Lines	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Processor Controlled Concentrator	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	(14)	n/a	n/a	-
	Driver-Only Operation: CCTV	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Driver-Only Operation: Mirrors	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Public Emergency Telephone System	No.	-	7	-	-	-	-	-	n/a	n/a	-	n/a	(7)	n/a	n/a	-
	Human Machine Interface Large	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Human Machine Interface Small	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Radio System	No.	-	-	-	-	-	-	-	n/a	n/a	-	n/a	-	n/a	n/a	-
	Power Systems	No.	-	7	-	-	-	-	-	n/a	n/a	-	n/a	(7)	n/a	n/a	-
	Network		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Projects and other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	n/a	-	n/a	n/a	n/a	n/a	-
	Non route capex		n/a	n/a	n/a	6	6	n/a	n/a	n/a	n/a	5	n/a	n/a	n/a	n/a	(1)
	Total				1	6	7			-	-	11			-	-	4

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

in £m 2014-15 prices unless stated

Asset	Activity type	Unit	Actual					2014-15 Network Rail Business Plan					Difference to Business Plan				
			Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m	Unit cost £k/unit	Volume unit	Unit cost x volume £m	Other non- volume costs £m	Total Cost £m
Wheeled plant and machinery	High output		n/a	n/a	n/a	3	3	n/a	n/a	n/a	9	9	n/a	n/a	n/a	6	6
	Incident response		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Infrastructure monitoring		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Intervention		n/a	n/a	n/a	1	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	2	2
	Materials delivery		n/a	n/a	n/a	2	2	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(2)	(2)
	On track plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Seasonal		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Locomotives		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Fleet support plant		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Road vehicles		n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(1)	(1)
	S&C delivery		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total				-	7	7			-	16	16			-	9	9
IT	IM delivered renewals		n/a	n/a	n/a	14	14	n/a	n/a	n/a	12	12	n/a	n/a	n/a	(2)	(2)
	Traffic management		n/a	n/a	n/a	-	1	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	2
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total				-	14	15			-	15	15			-	1	-
Property	MDUs/offices		n/a	n/a	n/a	-	-	n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1
	Commercial estate		n/a	n/a	n/a	3	3	n/a	n/a	n/a	1	1	n/a	n/a	n/a	(2)	(2)
	Corporate services		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Total				-	3	3			-	2	2			-	(1)	(1)
Other renewals	Asset information strategy		n/a	n/a	n/a	-	-	n/a	n/a	n/a	6	6	n/a	n/a	n/a	6	6
	Intelligent infrastructure		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-
	Faster isolations		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	LOWs		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Small plant		n/a	n/a	n/a	1	1	n/a	n/a	n/a	1	1	n/a	n/a	n/a	-	-
	Research and development		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Phasing overlay		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	Engineering Innovation Fund		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	West Coast		n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-	n/a	n/a	n/a	-	-
	CP4 Rollover		n/a	n/a	n/a	19	19	n/a	n/a	n/a	-	-	n/a	n/a	n/a	(19)	(19)
	Other		n/a	n/a	n/a	-	-	n/a	n/a	n/a	3	3	n/a	n/a	n/a	3	3
	Total				-	21	21			-	14	14			-	(7)	(7)
Total Renewals							333					413			-		80

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

In £m 2014-15 prices unless stated

Comments:

- (1) The principle of unit cost analysis is well established in many industries. It is best suited to circumstances where the output of the process is homogenous so that meaningful comparisons can be made between current unit costs and planned or historic unit costs. Unit costs are less useful in situations where the work is not identical in nature. The vast majority of Network Rail's renewals activities set out in this statement are not uniform in nature. For example, the unit costs associated with delivering a single unit of plain line track will vary considerably depending upon factors such as: the number of units being delivered as part of that renewal programme (economies of scale exist), the number of units being delivered in that year (again, economies of scale exist), the geographic location of the work (different cost of inputs and topography) and the location of the job on the network (for instance, works delivered on a branch line vs. near a main station) to name but a few of the factors that may influence unit cost. Given the wide variety and differing nature of the renewals works Network Rail undertakes unit cost analysis does not usually provide a useful guide to performance. This is reflected in the company's measurement of financial performance (expressed through the FPM measure detailed in Statement 5) where efficiencies are assessed on a project-by-project basis rather than through comparisons of unit rates to an abstract baseline.
- (2) The unit costs in this statement are derived by taking the total renewal costs for a particular key cost line (as set out in Statement 9b) and dividing by the number of units delivered in a given year. The comments below focus on the volume variances where relevant. Variances in expenditure compared to the regulator's determination are discussed in Statements 9a and 9b.
- (3) Track - Refurbishment – increase compared to plan is largely due to additional re-padding volumes where work has been accelerated from future years to utilise available local works delivery team resource.
- (4) Track - Switches & Crossings - Switches & Crossings shortfall is driven by lower refurbishment volumes predominantly by lack availability of required plant and equipment.
- (5) Track – drainage – no volume information was included in Network Rail's published CP5 delivery Plan for this route. Therefore, volume comparison is of limited value.
- (6) Signalling - Volumes are declared solely upon scheme commission regardless of progress made on design and preparatory works across the full portfolio. This means that there can be large fluctuations in volumes declared between years. Recording of the volumes in this manner is in line with historic convention and the method of volume reporting agreed with the regulator.
- (7) Signalling - Partial Conventional Resignalling - the workbank is below plan due to result of Swindon Area Resignalling project suffering significant programme slippage, which resulted in the scheme missing its planned possession during 2014/15. As a result, Bristol Area Resignalling (BASR), for which the completion of Swindon was facilitative, has also had its first part-commissioning date pushed back to later in the control period.
- (8) Signalling - Targeted Component Renewal - volumes are currently behind plan due to life extension works being put on hold while the route consider the most appropriate, whole-life cost approach to managing the asset.
- (9) Signalling - Level Crossings - workbank is below plan due to works at a number of crossing sites deferred to future years of the control period in order to optimise the workbank.
- (10) Structures - Overbridges - workbank is below plan due to the Scrubbs Lane scheme completion which was deferred to 2015/16 due to required liaison with Local Authority.
- (11) Structures - Tunnels - The workbanks is below plan because of the Whiteball Tunnel slipping to 2015/16. To develop the technology required to deliver this job safely and for an affordable price is taking longer than expected.
- (12) Structures - Footbridges - Footbridge volumes is less than Network Rail's published CP5 Business Plan predominantly due to Access For All works at Chippenham having been completed, but no volume being declared as this was an enhancement funded piece of work. The original plan expected this project to be delivered through the renewals framework.

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

In £m 2014-15 prices unless stated

- (13) Structures - Coastal & Estuarial Defences - Volumes are greater than Network Rail's published CP5 Business Plan due to works associated with Dawlish Walkway.
- (14) Structures - Retaining Walls - Volumes are below plan due to re-profiling to later in the control period following re-clarification of scope.
- (15) Earthworks - volumes are below plan in the three core areas of embankments, rock cuttings and soil cuttings. The key drivers for these variances are delays associated with the finalisation of framework contracts (as noted above), the impact of resource and deliverability restrictions and the prioritisation of emergency works following the emergence of additional work following the impact of extreme weather in 2013/14 upon the railway infrastructure.
- (16) Earthwork drainage - volumes of pipe works are substantively down from plan across all activity types. The modelled volumes in the CP5 Business Plan, which were based on a hypothetical asset condition and an assumption of full resource availability, have proved inconsistent with the condition-led asset management approach adopted in the route this year.
- (17) Buildings - Franchised Stations - within the workbank there has been significant movement across the majority of the portfolio this year with some positive outturn on Canopies (Taunton and Bath stations). This has been offset by a negative variance in buildings due the deferral of works at Bristol Temple Meads, which has undergone substantive re-scoping during the planning phase following the need for new platforms and configurative adjustments to facilitate electrification upgrades. Train Shed volume has been lost across the route, due to the aforementioned amendments to the delivery strategy for multi-asset works at Bristol Temple Meads.
- (18) Electrification - Signalling Power Cables - Volumes are below Network Rail's published CP5 Business Plan due to scope being reduced on power cables work so that resource could focus on the wider signalling programme. The signalling programme in Western this control period is ambitious and requires a great deal of resource if it is to deliver the required outputs.
- (19) Electrification - Points Heaters - Volumes are below Network Rail's published CP5 Business Plan primarily due to variances due to Oxford Corridor Capacity volumes delayed. This was because of increased work from other assets being prioritised in this area.
- (20) Telecoms - Station Information and Surveillance Systems (SISS) - There are a number of new SISS schemes where delivery was planned for 2014/15 but has been delayed by Network Rail's review of the SISS strategy. This has led to significant volume movements out of this year and into later years of CP5, such as CCTV renewals at Paddington station. In addition, a number of public address system volumes at Paddington station were accelerated into control period 4 with the volumes recognised in 2013/14.

Appendices to the Regulatory financial statements – Reconciliations between Regulatory financial statements and statutory accounts*

*Note: The reconciliations are made to Network Rail Limited's statutory accounts as no consolidated statutory accounts are prepared or published for Network Rail Infrastructure Limited

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

At 31 March 2015

In £m 2014/15 prices unless stated

	£m	£m
RAB valuation at 31 March 2015 (Statement 2a)		53,029
Investment properties	(982)	
Unamortised Capital grants	2,980	
Other Property, plant and equipment items outside the scope of the railway network	48	
		2,046
Adjustment for cash flow differences in the latest Business Plan compared to Periodic Review 2013		(1,006)
Other		22
Property, plant and equipment per NRL statutory accounts at 31 March 2015		54,091

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

Year ended 31 March 2015

In £m 2014/15 prices unless stated

	Operating expenditure £m	Maintenance expenditure £m	Total £m
Operating and maintenance expenditure for year ended 31 March 2015 per the regulatory Statements (Statement 1)	1,467	1,186	2,653
Differences between regulatory expenditure and statutory expenditure			
Depreciation, capital grants and other amounts written off non-current assets ⁽¹⁾	1,649		1,649
Difference in pension costs under Regulatory Accounting Guidelines and IFRS	56		56
Network Rail (High Speed) Limited	(12)		(12)
Other	6		6
	1,699	-	1,699
Operating and maintenance expenditure for year ended 31 March 2015 per NRL statutory accounts	3,166	1,186	4,352

Notes:

⁽¹⁾ This includes depreciation expenses of £1,732m and capital grant amortisation of £83m.

Appendix C: Reconciliation of Regulatory Income to Statutory Turnover

Year ended 31 March 2015

In £m 2014/15 prices unless stated

	£m	£m
Regulatory income for year ended 31 March 2015 (Statement 6a)		6,446
Differences between regulatory income and statutory turnover		
Performance regime (Schedule 4 & 8)	(308)	
Income from property sales	(34)	
Network Rail (High Speed) Limited	(12)	
Opex memorandum timing difference	(23)	
Other	18	
		(359)
Turnover per NRL statutory accounts for year ended 31 March 2015		6,087

Appendix D: Reconciliation of Regulatory Debt to Statutory Net Debt

At 31 March 2015

In £m 2014/15 prices unless stated

	£m	£m
Regulatory debt at 31 March 2015 (Statement 4)		36,505
Differences between regulatory debt and statutory net debt		
Impact of IAS32 and IAS39:		
Fair value hedging and fair value through profit & loss adjustment	1,185	
Foreign exchange differences	69	
		1,254
Net debt per NRL statutory accounts at 31 March 2015		37,759

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

Year ended 31 March 2015

In £m 2014/15 prices unless stated

	£m	£m
Regulatory capital expenditure for the year ended 31 March 2015 (Statement 1)		5,868
Differences between regulatory capital expenditure and statutory capital expenditure		
Third party funded capex	474	
Capitalised interest	128	
Investment property schemes	(23)	
Other	27	
		606
Capital expenditure per NRL statutory accounts for the year ended 31 March 2015		6,474

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

Year ended 31 March 2015

In £m 2014/15 prices unless stated

	£m	£m
Total financing costs for the year ended 31 March 2015 (Statement 1)		1,403
Differences between regulatory interest expense and statutory interest expense		
Capitalised interest	(128)	
Net finance costs relating to defined pension schemes assets and liabilities	53	
Investment revenue disclosed separately in statutory accounts	10	
		(65)
Interest expense per NRL statutory accounts for the year ended 31 March 2015		1,338