



About us

We own and operate the railway infrastructure in England, Scotland and Wales on behalf of the nation. Here we look at what we do, how we are organised, governed and funded. We also set out our strategy to deliver a better railway for a better Britain.

What we do

Network Rail owns and operates most of Britain's railway infrastructure, including 20,000 miles of track, 30,000 bridges and viaducts and thousands of signals, tunnels, level crossings and points. We also manage rail timetabling and operate 20 of the largest stations. Our role is to provide a safe, reliable and efficient railway while growing and upgrading the network to better serve passengers and freight.

How we are governed and managed

Network Rail is a public sector company, answerable to the Department for Transport (DfT) and Transport Scotland. Our direct customers are the companies that pay to use our infrastructure to provide passenger and freight services.

While the majority of our funding comes from Government, we are increasing our partnerships with third parties and generating funds from our commercial estate to reinvest in the railway.

The Office of Rail and Road (ORR) is the independent safety and economic regulator of the railway. The ORR makes sure we meet the needs of our customers, passengers and freight users, as well as being a good neighbour to the millions of people who live or work near the railway.

A diagram showing the governance framework we operate within can be found on page 54.

Network Rail's Board of Directors provides the primary internal governance. For details of the directors, including their biographies, see pages 49 to 52.

The executive committee, comprising the chief executive, the chief financial officer and other senior people, manages the day-to-day running of Network Rail. It meets on a regular basis to consider both strategic and operational matters and it is responsible for executing the objectives and strategy approved by the Board, providing leadership on safety, health and environmental matters, and establishing, monitoring and coordinating internal controls and risk management throughout the business.

Our Board is accountable to others in a number of ways:

- **Financial** – The ORR determines that we efficiently spend the income we receive and the outputs we must deliver during each five-year control period. Our chief executive is our accounting officer and is personally accountable to Parliament for Network Rail's stewardship of the public funds it receives.
- **Regulatory** – We are subject to the ORR's regulation for our health and safety performance and for management of the network consistent with our network licence.

The Board's corporate governance report starts on page 53.

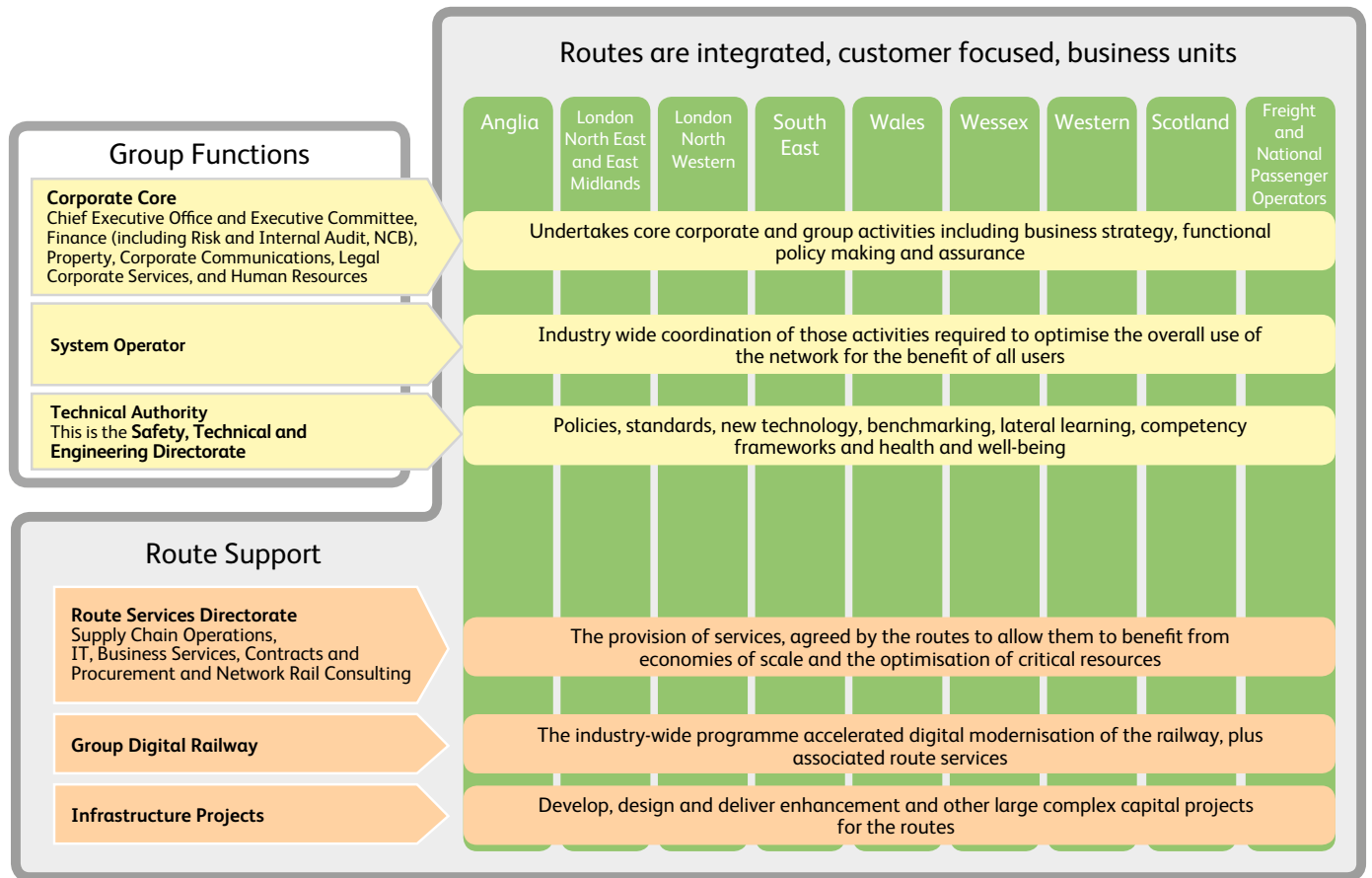
How we are organised and operate

We operate in a matrix structure, which means we work collaboratively across functions. This structure is made up of nine route businesses, central functions and route support services. Eight of the route businesses manage and run the rail network in a defined geographical area and work closely with local train operating companies to deliver the best service possible for passengers. The ninth route operates nationally, working with freight and long distance operators.

As part of our matrix structure, our critical central functions support our nine route businesses; these are the System Operator, Technical Authority, Route Services, Infrastructure Projects and Digital Railway. In addition to these, there is a small corporate core that covers activities such as business strategy, functional policy, legal and corporate assurance, and communications. We also have Network Rail Property, which is a commercial division of Network Rail that manages our estate and property assets.

The matrix structure has been designed to make sure that our routes are supported by a national framework. This allows us to deliver in a fair and competitive way for our customers across the UK.

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More information on the activities of the individual routes during 2017/18 can be found on pages 14 – 32. Information on our Digital Railway programme can be found on page 33, and our Property division on page 34.

Our business model

We are a public sector company that operates as a regulated monopoly. Our income is a mix of grant and borrowing from the UK and Scottish Governments, charges levied on train operators that use our network, and income, mainly from our commercial property estate.

The UK and Scottish Governments specify what they want from Britain’s railway and how much they wish to contribute. Our independent regulator, the ORR, sets a framework that specifies the level of fixed income we are allowed to charge train and freight operators, as well as the prices for recovering the costs of wear and tear to our infrastructure caused by the trains using it.

The framework also includes flexible funding mechanisms which allow the level of enhancements to the railway to be varied over time. The charges we are allowed to pass on to train operators are determined so that they are fair and allow us to maintain a safe and reliable network, and deliver good customer service.

How our revenue is determined

Network Rail is funded by the Government in five-year blocks called control periods. This annual report covers the fourth year of Control Period 5 (2014 to 2019).

The ORR assesses the efficient level of expenditure that it believes we need to run our business and deliver the regulated outputs. It determines how much revenue we need, taking into account other income that we receive. Our

regulatory agreements then allow us to determine the amount we are allowed to charge train operators for use of our network.

The ORR calculates our revenue based on:

- **Cost of service** – The ORR considers the costs that an efficiently run business would incur to operate and maintain our network. They vary and can include costs relating to employees, office rental, information technology systems, and taxes. The regulator determines what it considers to be an efficient cost and this may be different to the actual costs we incur.
- **Expenditure on renewals and enhancements** – The regulator assesses the capital expenditure on renewals and enhancements to the rail network that we need to undertake in the control period. This expenditure is added to the regulatory asset base in the year in which it is incurred.
- **Allowed return** – The ORR calculates the allowed return on the regulatory asset base and includes this in its determination of charges to rail users. This therefore covers, among other things, the cost of financing our capital expenditure programme.
- **Performance against incentives** – Our regulatory framework includes incentives that are designed to encourage specific actions. Failing to achieve certain minimum targets may lead to a reduction in our allowed revenue, or an increase if we exceed targets.

It is proposed that there will be changes to the method of revenue determination for CP6. This will be explained in our 2019 annual report and further details on the proposals can be found in the ORR’s draft determination published 12 June 2018.

Our transformation

Since we published ‘Delivering for our Customers’, our plan for transforming Network Rail, in 2016 there has been a

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fundamental change to the way we operate. Network Rail is now a federation of devolved businesses operating within a national framework. This year, each route developed its own Strategic Business Plan for the next control period (2019-2024) for the first time. The routes and the System Operator will have their plans and targets agreed with the ORR, which reinforces how important it is that we have devolved businesses making decisions at a local level. Routes will drive economic growth, jobs and housing through better relationships with the communities they serve.

Over the past 12 months we have continued to drive the pace of change within Network Rail. We want to make it easier for third parties to fund, finance or deliver work on the railways, so we are implementing a number of reforms that aim to cut red tape, so people can come forward with

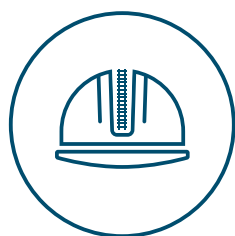
innovative solutions and new ways of working on the railway. This year we published a list of potential opportunities for third party involvement as part of our Open for Business work, and this is just the start of much more to come.

Becoming more cost efficient has also been a key part of our transformation and we are empowering our employees to become more cost-effective and taking a critical eye to current processes. We have already trained 5,500 of our people in continuous improvement techniques and in the last year we made approximately £85m of savings through our continuous improvement initiatives.

Real change takes time, but the progress we have made shows real improvements; working smarter, planning better and making more efficient use of the railway.

Our strategy

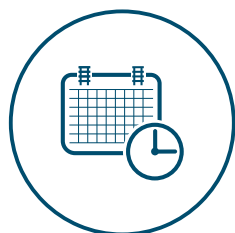
This year, Network Rail developed and submitted its Strategic Business Plan for the next five year control period (CP6) running from 2019 - 2024. As a passenger and customer-focused business, our plan for the next control period focuses on the following key responsibilities:



Safe

Keeping people safe on the railway is at the heart of everything Network Rail does. We want everyone home safe, every day. As well as it being a moral responsibility, we believe that improved safety and improved business performance go hand in hand. Safety will therefore continue to be our number one priority throughout the next control period, with a specific focus on four areas:

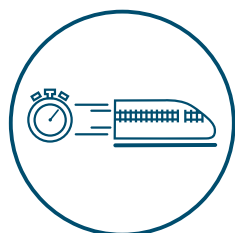
- **Passenger Safety** – We will reduce train accident risk by a further 10 % .
- **Public Safety** – We will continue to develop programmes to reduce railway trespass and prevent suicides.
- **Level Crossing Safety** – We will reduce the risk to the public at level crossings by 13 % .
- **Workforce Safety** – We want an injury-free and healthy business, so we will continue to improve our Lost Time Injury Frequency Rate (LTIFR) measure by 54 % . We will also increase our work on mental health and resilience, with a target of a 30 % reduction in absence due to mental ill-health by 2024.



Reliable

During the last 12 months we have begun to reverse the previous six year trend of declining train punctuality, but we are still not yet at a level that is acceptable. Our plan for the next five years, working with train operators, will achieve a 15 % reduction in the number of trains that are delayed, focusing on:

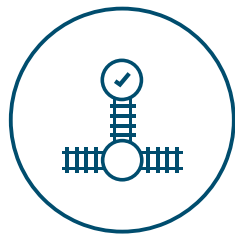
- **Better assets** – Improving the reliability of the railway’s infrastructure to reduce incidents that cause disruption.
- **Better timetables** – Improving the accuracy of assumptions on which the timetable is based.
- **Better operations** – Improving operational processes so that service recovery from incidents is rapid.
- **Better information** – Improving the accuracy of train running data to help problem solve.



Efficient

Driving greater efficiency within our organisation is also a core part of our strategy. During the last 10 years we have reduced the operating and maintenance cost of passenger journeys by 40 % . Our plan for 2019 – 2024 proposes spending approximately £53bn (in 2017/18 prices) to operate, maintain, renew and enhance the railway, which we will spend wisely and efficiently. Between 2019 and 2024, we are forecasting that the cost per passenger kilometre of running the railway will reduce by a further nine per cent in real terms, through smarter working, more efficient use of the railway and better technology.

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Growing

Moving into the next control period, we will continue to improve our railway through the delivery of enhancements. We have radically changed our approach to planning enhancements in recent years, to prevent projects from being overpromised before they are properly developed and costed.

From 2019, enhancements will be considered on a case by case basis rather than in one five year budget. This pipeline approach will be supported by business cases to confirm the strategic fit, value for money, affordability and deliverability of proposals.

Building new projects to increase capacity can be expensive and disruptive, particularly in built-up urban settings. So the next control period will mark a turning point for Britain's railway, with the end of major analogue re-signalling – digital signalling is the future that this plan ushers in. Over the next five years, we will be accelerating the transition to digitally-run railways so we can unlock the benefits before the network is gridlocked. Digital Railway is developing a plan that, within 10 years, could enhance the journeys of over 70% of all passengers.



Great People Great Teams

The delivery of this reforming, ambitious plan will only be possible if we can attract, develop and retain the brightest and the best. We want Network Rail to be a great place to work, and help to make people proud to work on Britain's railways.

We aim to be one of Britain's best employers. We aspire to create an environment that will allow everybody to reach their full potential. To reach our potential we must call on the talents of everyone; diverse teams perform better. We are leading the way in moving the rail industry to become more diverse and inclusive. We have set ourselves the target of increasing the female workforce to 20% by 2020 and by 2024 we aim to double the proportion of women in our business. We also aim to be in the top 25 graduate employers and to have gender-balanced recruitment of apprentices and graduates.

Strategy/Direction (see pages 6 & 7)		Risks & Controls (see pages 40 - 45)			Outcomes (see pages 8 & 9)
Business Strategy	People Strategy	People Risks	Business Risks	KPI's	
<p>Safe</p>	<p>Network Rail:</p> <ul style="list-style-type: none"> Strives to be a place where people are proud to work. Aims to be one of Britain's best employers. Is committed to attracting, developing and retaining dedicated and committed people. Is leading the way in making the railway industry more diverse and inclusive. Is keen to be a place where people feel safe, looked after and are treated with dignity and respect. Is planning for and developing leadership and skills to meet the future needs of the railway. Works to create an environment to enable everyone to reach their full potential. Encourages great leadership and strives to be a place where there is mutual trust and respect between line managers and employees. Prioritises mental health and employee wellbeing, and supports and develops resilience in its people. 	<p>Great People Great Teams</p> <ul style="list-style-type: none"> Network Rail not embedding and sustaining the right change initiatives at the right time, in the right way, to deliver the right benefits. Failing to attract, retain and develop the full potential of our pipeline of talent for key roles. Failure to secure employee and Trade Union support for our forward change agenda. 	<ul style="list-style-type: none"> Failure to safeguard our workforce (employees and contractors). Failure to prevent a major avoidable train accident which results in multiple injury/fatality. Failure to have suitable and sufficient infrastructure, systems and controls in place to safeguard passengers and public at the interface with trains and the railway. Failure to recover from a business interruption to pre-defined output levels and within agreed recovery timescales. Unable to achieve TOC / FOC performance targets as agreed with stakeholders. Failure to live within our funding envelope; achieve net receipts from asset sales to support shortfall funding; and deliver efficiency savings programme. Failure to deliver the renewals portfolio to time and cost. Failure to deliver the enhancement portfolio to time and cost. 	<p>Safety:</p> <ul style="list-style-type: none"> Workforce safety – LTIFR Workforce safety – close calls raised Workforce safety – close calls closed within 90 days Top 10 milestones to reduce level crossing risk <p>Asset management:</p> <ul style="list-style-type: none"> Composite Reliability Index Renewals (seven key volumes) <p>Train performance</p> <p>Financial performance:</p> <ul style="list-style-type: none"> FPM – total efficiency generated gross excluding enhancements FPM – gross enhancements only Cash compliance - income & expenditure <p>Enhancements:</p> <ul style="list-style-type: none"> Top 10 IP Renewals and Enhancement milestones All Delivery Plan Enhancement milestones Locally driven customer measures 	